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THE EFFECTIVENESS OF CHANGES IN INTEREST RATES

RECENT writings have again thrown into relief how little is known of the likely quantitative effects of monetary measures designed to reduced demand. When an increase in interest rates was regarded as the main weapon for countering inflationary tendencies it could be argued that a quantitative assessment of the effects of raising interest rates was not an essential requirement for the formulation of policy. So long as it could be postulated that a progressive increase in interest rates would lead to a speedy and progressive reduction in demand and there was no reluctance to use the interest rate weapon for fear of undesirable side effects, the level of interest rates required could be determined by increasing them until demand was brought under control. But in the post-war world the interest rate weapon has been assigned only a moderate role in regulating demand and has probably been considered of only secondary importance in the formulation of monetary policy. In the operation of the most recent credit squeeze it has not generally been argued that since an increase in interest rates was proving insufficient to reduce demand as much as was desired, rates of interest should be increased further but rather that other measures of a monetary nature should be taken or supplemented in order to intensify the squeeze. Thus the hope that the initial increases in bank rate would reduce bank advances and deposits rapidly gave place to increased reliance on the rationing of credit by the banks and other measures of a more direct nature. Dissatisfaction with the results of these measures in turn gave rise to suggestions that measures should be taken to reduce the liquidity of the banks in order to give them a compelling reason to reduce their advances.

The new methods of monetary control that have been advocated reveal a marked shift in opinion as to the basis on which a credit

squeeze should be operated. Those who advocated the use of interest rates for controlling demand were implicitly relying on the perfection of monetary markets and the perfection of entrepreneurial reactions to changes in interest rates to regulate the economy. The new exponents of monetary policy seem, however, both to have accepted imperfections in market and entrepreneurial reactions as characteristics and to have designed policies to exploit these imperfections. Put in oversimplified terms, we are no longer to suppose that any increase in interest rates which will be acceptable to the monetary authorities will affect demand to a significant extent, and, in consequence we must plan to make it very difficult for some unspecified borrowers to raise additional finance at any rate of interest. Monetary policy is thus to consist of widening or narrowing the unsatisfied fringe of borrowers. Such a policy may be quite effective so long as it is regarded as a non-recurring temporary measure since sources of finance alternative to bank loans or new issues are not readily developed or expanded in a short period of time.[1] But if restraints on lending are to be a continuing feature of monetary policy, even if they are put in force only periodically, a 'free market' for loans may be expected to develop on a larger scale. Thus ultimately there may be little alternative between relying on an increase in interest rates to reduce borrowing and a considerable widening of the area of monetary investment control.

Before committing ourselves indefinitely to a type of monetary policy likely to lead to more detailed and extended control in the financial sector it is desirable to make quite sure that an increase in interest rates (both long and short term) of the order of magnitude countenanced in the recent credit squeeze contributes so little to the restraint of demand that other alternatives must be sought. This is, of course, an old and overdiscussed subject in which successive arguments have been evolved to show that all the effects of higher interest rates on demand are so small as to play a minor role. There are, however, two reasons for re-opening the discussion: first, that the sum of a number of small effects is not necessarily itself so small as to be neglected and second, that in their early stages inflationary or deflationary gaps are themselves small so that even a small reduction in potential demand brought about by monetary measures can make a significant contribution to the reduction of an inflationary gap. It may be remembered that the balance of payments is seldom more than £100 m. - £200 m. on the wrong side of a satisfactory figure. Even in

[1] For a discussion of the opportunities for 'fringe' borrowers to meet their requirements outside the banking system in 1952 see J. S. G. Wilson, 'Credit Rationing and the Relevant Rate of Interest', *Economica*, New Series, Vol. XXI, Numbers 81-84, 1954, p. 21.

the budget year of 1951 total excess demand may have amounted to only about £500 m. and in normal conditions would be much less than this.

It is quite impossible to lay down what contribution monetary measures should be expected to make towards a reduction in excess demand in the wide variety of inflationary situations that may arise. But monetary measures will generally be taken as an alternative as well as a supplement to other measures, particularly those of a fiscal nature, and it may be suggested, perhaps, that if they are to be justified in terms of reducing excess demand they should have at least comparable effects to fiscal measures likely to be advocated in their stead. In this connection it may be convenient to think of £100 m. as being a minimum figure which would justify the use of monetary measures as an alternative to fiscal measures of a supplementary character. We are accustomed, for example, to the idea that an autumn budget designed to reduce demand by this amount, or a cut in government expenditure of the same amount is likely to tip the scales in the fight against inflation, and it is not unreasonable to suppose, therefore, that one of the tests of the efficacy of monetary measures should be whether they are likely to reduce demand to the extent of £100 m. It is argued in this paper that there are grounds for thinking that even a moderate increase in interest rates alone could have this effect on demand without the need to resort to other measures.

I

We may consider first the Hawtrey effect of higher interest rates on stocks. It is generally supposed that stockholders are little affected by a rise in interest rates because the effect on their costs is small. Messrs. Paish and Alford following a long line of historical precedent argue, for example, that an increase in short term interest rates from 4 per cent. to 6 per cent. adds ¾ per cent. to the costs of a retailer or ½ per cent. after allowing for taxation.[2] They conclude that this small relative increase is unlikely to have much effect because the potential loss of profits from reducing stocks would be greater. These arguments are not entirely convincing. In the first place, the increase in costs will be much greater for some retailers than for others; jewellers, for example, hold larger stocks in relation to costs and turnover than other traders. Moreover, a figure which appears negligible in relation to costs is not necessarily negligible in relation to profits. The increase in interest rates considered by Messrs. Paish and Alford might reduce the profits of jewellery retailers by 5 or even

[2] 'How Interest Rates Cut Spending', *The Banker*, August 1953.

10 per cent. if no adjustment were made to prices. But their argument stands more perhaps on the presumption that costs cannot be reduced without reducing sales. Even this, however, is doubtful for customers are comparatively easily fobbed off with something not quite what they require and if all retailers simultaneously reduce the quality of their services, only the customer may lose.

It may be true that industry is less likely to respond to an increase in short term interest rates than retailers or others fulfilling traders' functions. This is not, however, always the case. In inflationary conditions work in progress may often be excessive. There is much more working capital sunk in the construction of ships and houses, for instance, at the present time than is dictated by technical considerations, or considerations of good management. Moreover, when interest rates are low and prices rising at a fairly constant rate over a long period in many industries, stockholding can become a fairly costless and even profit making business. An increase in interest rates will reduce the prospective profit from holding excessive stocks in anticipation of a continuing rise in prices and may lead to a reduction in the level of stocks held for quasi speculative purposes of this kind as Hawtrey has pointed out in a recent article.[3]

It may be, of course, that business men simply ignore small increases in cost and take no action in response to them. Some of the broader implications of this are discussed later. But a *reductio ad absurdum* leads to the conclusion that it is unlikely that a series of small cost increases would be neglected by business men in taking their decisions. In inflationary conditions even a small straw may break some kind of camel's back. It would not be surprising if some industrial organisations running their affairs by statistics rather than by personal administration or small business men watching the interest rate on their overdrafts, scanned stock levels rather closely when interest rates rose. And those concerns most sensitive to an increase in interest rates, because for example they carry an unusually large amount of stocks with borrowed money and find difficulty in passing costs on, are likely to be much more responsive to a rise in interest rates than the general run, and will investigate more carefully the possibility of reducing stocks.

The value of stocks and work in progress in the economy is about £8,000 m., roughly one-third of the value of goods sold to final consumers. A reduction of 1 per cent. in stock levels would reduce demand by £80 m. and although even a 1 per cent. reduction may seem large when it is remembered that only perhaps one-third of

[3] Sir R. Hawtrey, 'Mr. Harrod on the British Boom', *Economic Journal*, December 1956, p. 618.

stocks are financed out of borrowed money and some stocks are irreducible it would be a bold man who would deny that an increase in interest rates might not reduce stockpiling in a year by £50 m. and a rash one who ruled a reduction of £25 m. out of court.[4]

We may turn to considering what scope there is for reducing long term investment by a rise in interest rates brought about either as a market reaction or by means of intervention by the authorities in the market for bonds.

It is clear that in the case of investments which, if successful, are expected to give high yields, interest charges are likely to form a small proportion of anticipated costs or returns. The gross profit margin expected on new investments in manufacturing industry is probably of the order of 20 per cent. and an increase in long term interest rates of even 1 per cent. is obviously small in relation to this. But in spite of the strong indication in the Oxford enquiry that business men seldom pay attention to interest charges in determining investment policy it is difficult to be sure that fixed investment is entirely uninfluenced by interest charges even when provisions for risk and depreciation rank high.[5] There may be frills to be cut out or marginal modifications to plans carried out even subconsciously in response to an increase in interest charges.

Whatever judgement may be made on this point, however, it would be a mistake to assume that Keynes' theory of the *modus operandi* of bank rate developed in the *Treatise on Money* stands or falls by it. It was Keynes' view that: 'Willingness to invest more or less in manufacturing plant is not likely to be very sensitive to changes in bond rate. . . . Almost the whole of the fixed capital of the world is represented by buildings, transport and public utilities; and the sensitiveness of these activities even to small changes in the long term rate of interest, though with an appreciable time-lag, is surely considerable.'[6]

Thus in examining the effect of higher long term interest rates on

[4] The argument is, of course, tantamount to making various assumptions about the elasticity of demand for stockbuilding in response to an increase in interest charges. If, for example, the cost of holding stocks amounted to 16 per cent. per annum and the rate of interest on money borrowed for this purpose increased by 2 per cent. the proportionate increase in the cost of holding stocks would be 1/8. An absolute reduction of £50 m. on stocks of £8,000 m. would be equivalent to a proportionate reduction of 1/160, giving an elasticity of 1/20. It is, however, quite impossible to say *a priori* whether such a figure is reasonable or unreasonable.

[5] For a critical discussion of the basis of the Oxford and other similar enquiries see, for example, William H. White, 'Interest Inelasticity of Demand —The Case from Business Attitude Surveys Re-examined', *American Economic Review*, September 1956 p. 565.

[6] *Treatise on Money*, Vol. II, p. 364.

fixed investment, it might be proper to consider investment in manufacturing plant as intra-marginal almost in its entirety concentrating attention on those endurable, safe, but low yielding investments which may be expected to be sensitive to changes in long term rates of interest.[7] The difficulty in arguing that a cut in this type of investment will reduce total demand significantly lies in the smallness of its absolute size. An examination of the composition of investment suggests that at the most £1,000 m. of investment is likely to be particularly sensitive to changes in interest rates and the figure may well be much nearer £500 m., composed mainly of houses, roads, dams, docks and the like. An appreciable proportion even of this, however, is either high yielding at the present time—investment control of roads, for example, has reduced new construction well below the level which could be justified by its marginal return—or is regarded as a vital ingredient of social policy. But as Sir Hubert Henderson pointed out some years ago, higher interest rates do make it more difficult for governments to justify 'public works schemes which are not fully remunerative but are desirable on general economic grounds'. Although as part of its deflationary policy the government has resorted to direct cuts in publicly sponsored investment there is little doubt that the fact of having to pay more in interest charges is having some general influence. It may be that public expenditure on housing will prove itself to be at least as sensitive to an increase in interest rates as private housing financed through building societies.

The finance of house building in this way is, of course, a special case. An increase in short term rates of interest forces building societies to pay more for their deposits and to increase in turn the interest they charge for their loans. There is, therefore, a fairly direct relation between short and long term rates of interest in this case. It is true that any subsequent reduction in short term interest rates is likely to be reflected in a downward adjustment of the rates charged to borrowers so that the effect of a temporary rise in interest rates on the average rate charged for the full period of a housing loan may not be greatly increased and it is also true that some part of the increase in interest charges will be offset by a reduction in the amount of income tax payable. Nevertheless, the rise in interest rates may prove to be some deterrent to new construction. Moreover, if building societies react to higher short term interest rates at first by restricting the volume of their loans and advancing a smaller percentage of

[7] For an elegant exposition of the underlying theoretical considerations see, of course, G. L. S. Shackle, 'Interest-Rates and the Pace of Investment', *Economic Journal*, March 1946, and see also F. A. Lutz, 'The Interest Rate and Investment in a Dynamic Economy', *American Economic Review*, December 1945.

purchase prices in order to maintain their liquidity, and only at a later stage by increasing interest rates in order to maintain their deposits and continue to satisfy the market for loans, some new building is likely to be postponed until would-be purchasers have accumulated the necessary deposit.

Postponement may also be of importance in other circumstances. Difficulty in raising new capital in an imperfect money market, as Professor Sayers, amongst others, has pointed out, will impede fixed capital formation.[8] There is no means of measuring how important this effect is likely to be, but if all projects for capital investment were postponed by only a week, fixed investment would be reduced by something like 2 per cent. below its planned level. Postponement of new issues, however, cannot be divorced wholly from the rate of return which would have to be offered as an inducement to provide capital in the quantities required. Large concerns seeking new capital from the market and the issue houses and underwriters who oversee new issues and depend on the major institutional investors for their funds may well have certain preconceived notions as to the rate of return that it is reasonable to pay for long term capital on issues of various qualities. In the interest of not spoiling the market they may prefer to limit the sums they raise even if this means that profitable investments cannot be carried through immediately. In a less restrictive market a similar effect would be produced if companies wishing to raise new capital anticipated a fall in interest rates and decided to postpone investment on this account. This would imply, either that they held a view contrary to the view of the market or alternatively that the authorities have it in their power, or are thought to have it in their power, to adjust interest rates almost at will by controlling credit. In times of rising prices, however, the incentive to postpone investment is obviously much reduced.

The fall in security values associated with a rise in long term interest rates is a factor which may influence the liquidity of both firms and individuals and affect their ability either to invest or consume. It is typical of the difficulties of numerical thinking about the effects of interest rates that this particular effect has attracted so much attention. The effect cannot yet be satisfactorily measured but in the pull of economic opinion it has caught the imagination. The division between capital gains and income is a somewhat arbitrary one and in periods of rising prosperity capital gains may be a widow's cruse for the moneyed classes. One fact is, however, clear: the value of capital is much greater than the value of the national income and

[8] See R. S. Sayers, 'The Rate of Interest as a Weapon of Economic Policy', *Oxford Studies in the Price Mechanism*, p. 12.

even small changes in the propensity to spend capital gains may be appreciable in relation to excess demand.

There is no limit to the arguments which can be advanced for and against interest rates as an influence on demand. So long as proper quantitative assessment cannot be made, opinion is as likely to be formed by the number of arguments on either side, the form of the arguments, and the illustrative statistics adduced in support as by any real knowledge of the working of the economy. Our examination of the familiar arguments in the debate has been pursued not with the hope of showing that higher interest rates have a decisive effect on demand but with the object of showing that even with moderate increases in interest rates there may be a sufficiently restraining influence to curtail investment by £100 m. or even more.

II

We have seen that the opponents of the view that higher interest rates reduce demand have sought to show that the effects of higher interest rates on borrowers, where the impact might be expected to be most severe, are negligible. It has generally been thought impossible to pursue the argument beyond this point because it has been assumed that the effect of higher interest rates on total costs would be of even smaller significance. It is argued, for example, that an increase in the interest paid on bank loans from 4 to 6 per cent. adds about £40 to £50 m. to total costs—a small sum in relation to the national income. We shall return to this point and an extension of it shortly ; in the meantime, it is useful to consider what happens if entrepreneurs do not curtail their activities when interest rates increase.

An increase in bank charges increases an entrepreneur's cost of production. He can react to this in a number of ways. He may reduce his planned input of capital ; he may reduce or increase other types of input ; he may reduce the volume of his output. If, however, we assume that the technical coefficients of production are fixed and that he does not change his planned output either prices or profits will necessarily be adjusted. If we assume that the prices of other types of input are fixed, adjustments will have to be made either in planned prices, planned profits or in both. In much economic analysis of the effects of bank rate it appears to have been assumed implicitly that profits would be reduced by an increase in interest rates. Certainly this view could be readily reconciled with the findings that entrepreneurs ignore interest charges in deciding their investment programmes. But it is doubtful if this assumption can be fully justified. Asked about the effect of the credit squeeze on stocks, a business man

is most likely to reply that the difficulty of getting bank loans makes it necessary for him to regulate stock levels closely but the increased cost of bank loans is being passed on to the consumer. In inflationary conditions in which demand is tending to outrun the supply of many products, demand can be regarded as highly inelastic and there will be little difficulty in passing costs on. There may be very little conscious adjustment in the plans of business men but prices may, nevertheless, be pushed upwards in order to cover increased costs. A great deal depends on how prices are determined in the short term. If pricing is based on *average* cost plus some profit margin, the increase in the cost of borrowing will be passed on fully to the final consumer. If pricing is based on *marginal* cost plus some profit margin, prices will be increased by more than the absolute increase in borrowing costs because the returns on capital already invested in the business will be automatically increased.

A great deal has been said and written about how business men determine prices in various conditions and over various periods of time. Even when demand cannot be met out of available production, cost increases may sometimes be borne either partly or wholly out of profits and either average or marginal cost pricing may be followed when it is the intention to pass on costs to the consumer. But there is some reason for thinking that in inflationary conditions when many costs are increasing, pricing will veer more to marginal costs than average costs as a basis for price fixing. If this view is correct, an increase in interest rates on bank loans from 4 to 6 per cent. will have a much more far-reaching effect on prices than the £40 - £50 m. calculated earlier would imply. If business men's pricing policy were such that prices were fixed on marginal costs the whole of the increased cost of holding some £8,000 m. of stocks and work in progress would be transmitted to consumers—an increase of £160 m. Marginal cost pricing would thus automatically imply that the borrowing rate and the loan rate of money employed in a business were the same, always provided that some money has to be borrowed.

This type of argument can be extended to changes in long term interest rates. Any firm borrowing money on long term is likely to add the increase in interest charges consequent on a more severe monetary policy to its costs and pass them on to the consumer. If marginal cost pricing is followed this will again mean that the effects on the consumer will greatly outweigh the increase in interest charges on new borrowing.

It might be expected, however, that any tendency for higher long term rates to force up prices would take time. Entrepreneurs are often

reluctant to adjust prices quickly to increases in even current costs, and it would be reasonable to suppose that they would take even longer to adjust prices to take account of the increased cost of borrowing on long term. In other words, the time taken for price adjustments is likely to be a function of the life of the capital good considered. It may be that it is only when the replacement of fixed capital or the extension of existing fixed capital is considered that entrepreneurs review the prices they charge in relation to current rather than historical costs of borrowing. It would not necessarily be reasonable therefore to assume that entrepreneurs would put up prices simply because long term interest rates had risen and other uses for long term money had become more profitable. But there would be a tendency in that direction which would become more marked whenever new funds became available for investment or re-investment out of a company's own resources and would very likely be dominant when new money had to be raised on the open market.

The money market, although imperfect, is probably the nearest to a perfect market we are likely to meet. If there has been one striking thing in the evolution of the credit squeeze it has been the anxiety of investors to secure the highest yields within their power. Higher interest rates have been extending their grip as one would-be user of funds after another has found that it can maintain its resources only by paying the market rate.

Again adjustments of interest rates take time. Some loans are on a day to day basis, some for short periods of time, others for years and some in perpetuity. Higher interest rates affect day to day loans immediately ; they affect other types of borrowing only as loans have to be re-negotiated at the new higher ruling rates of interest. But as short term and medium term loans expire and as sums for depreciation are set aside, the revolving capital of the community is available only at higher interest rates so long as the credit squeeze continues. The income of rentiers rises and almost necessarily profits also.

It is instructive to glance at some of the orders of magnitude involved without attempting to give either a detailed or a complete picture. If profits are maintained the immediate rise in the cost of bank loans increases prices by say £50 m. a year. If mortgage rates are increased by 2 per cent. the real income of borrowers from building societies is reduced by £15 m. though the effect of this is mitigated by smaller tax payments and in present circumstances by an extension of repayment periods. An increase of 1 per cent. in long term interest rates increases the cost of raising new non-government money on the Stock Exchange by £5 m. per year. None of these figures is over-

whelmingly large but they are only some of the loans which have to be negotiated at short notice. A rise in all profit and interest incomes by 20 per cent. which is the order of the increase in long term yields on fixed interest securities occurring during the credit squeeze would increase these incomes by something of the order of £500 m. Now this is a large sum and it cannot be pretended that it measures in any way the effect of the credit squeeze but it is a reminder that if a credit squeeze is prolonged there may be quite a sizeable increase in unearned incomes unless producers are either reluctant to put up prices or unable to do so. If they are reluctant to do so then we must regard them as voluntarily restraining themselves from increasing prices ; if they are generally powerless to do so then excess demand cannot be present.

There is no guarantee that an increase in profit and interest incomes at the expense of non-profit incomes will reduce demand. If profit incomes rise, not all the increase in income will be saved, and if non-profit incomes fall in real terms consumption may be little affected if savings can be cut or capital resources drawn up. But the rise in profit incomes where it occurs is unlikely to be immediately apparent. Dividends may be increased, but some time will elapse before an increase will be paid and increased taxation will serve to swell government income. Some financial institutions will be making at one and the same time current profits and capital losses, and the latter may be large enough to prevent any rise in dividends or even to induce a fall.

Thus there is a reasonable presumption that an increase in profit and interest incomes will be accompanied by some, perhaps a considerable, increase in saving. Amongst wage earners an increase in prices is likely to check consumption as savings and financial resources are likely to be small though it is likely at the same time to set off demands for wage increases.

III

It is possible that the indirect effects of an increase in interest rates operating through a redistribution of the national product will be as powerful a deflationary influence on demand as the more direct effects on capital formation which we discussed in the previous section, and there seems to be good reason for believing that the two effects together will curtail excess demand by the one or two hundred million pounds that we took as the objective of a restrictive monetary policy. The direct effects of higher interest rates are likely to be felt more quickly than the indirect effects and some of the full force of higher interest rates on fixed investment and stock formation may be spent before restraint through income redistribution is fully effective.

The longer the credit squeeze is drawn out the more apparent the disadvantages of monetary restraint will become; the increased cost of servicing the national debt and the higher payments made to foreign holders of debt vary directly both with the increases in interest rates carried out and with the time for which they operate. Similarly, the pressure for wage increases will be intensified as higher interest rates are progressively translated into higher prices. To many, these features associated with an increase in interest rates will seem to be a convincing argument against the use of interest rates as a weapon to restrain demand and good reason for relying on fiscal measures for controlling the economy. But, in practice there are limits to the extent to which demand can be curbed by fiscal measures and the problem may be to make the most effective use of available monetary measures. So far as an increase in interest rates is concerned, the main choice would appear to lie between very high interest rates, ruling for a comparatively short period of time and directed at discouraging investment or bringing about its postponement, and less high interest rates ruling for a longer period of time with the intention of reducing both investment and consumption, the latter by a rise in prices and some redistribution of the national income. There may, of course, be occasions when both steps should be taken: when very high interest rates are needed to check immediate excesses and when continuing high rates are needed as part of an adjustment of the savings-investment balance. The last few years may have been in this category but should it be necessary once again to attempt to check an incipient inflation by an increase in interest rates there may be less disturbance to the economy from a short sharp increase in rates than from a long-drawn-out credit deflation.[9]

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[9] This article was written many months before bank rate was raised from 5 to 7 per cent. on 19th September but there seems little if any reason to modify the analysis or the conclusions, except to emphasise that they are concerned primarily with the reduction of internal demand in conditions of demand inflation. The effect of higher interest rates in other circumstances may, of course, be different.

IMPORT RESTRICTIONS IN POST-WAR BRITAIN

War-time Controls

Physical import controls in the British economy did not originate as war-time measures. In addition to restrictions on dye-stuffs and plumage in the 1930's, there were import quotas on some agricultural foodstuffs, but they were insignificant quantitatively, being a half-hearted measure to protect farming interests.[1]

At the outbreak of war, powers were given to the Board of Trade to exercise control over imports, at that stage principally in order to save foreign exchange.[2] Few items were covered at first, and it was not until June 1940 that general control was authorised.[3] With the fall of Western Europe and the beginning of Lend-Lease, the *raison d'être* of the newly-formed Import Licensing Branch of the Board of Trade was transformed—shipping space, not foreign exchange, became the scarce factor. Until the end of the war, military and strategic considerations dominated the work of the new department.

Parallel with this development of control over private trade there was a gradual extension of bulk-purchase under monopoly conditions by the State, represented by the purchasing departments of the Ministries of Food and Supply. Such were the advantages of centralised importing under direct official control that by 1945 less than one-third of the import bill was made up of private trade.

At the end of the war the completeness of central control was impressive. The import sector was the responsibility of the Lord President's Council, which was the most important executive body responsible for administering the policies of the War Cabinet. Using the criterion of economy in shipping space, this body drew up an annual import programme—the type of programme which, springing directly from a set of central decisions, was a major feature of the immediate post-war period when a very large section of the economy was still subject to control. Later, as targets and programmes became less rigid, the central importance of the annual import programme tended to decline. The gradual return to freedom meant that the efficacy of centralised decisions diminished and with the abandonment of internal control the annual import programme tended to become little more than a review of possibilities.

[1] Details of these quotas are contained in *Trade Regulations & Commercial Policy of the U.K.* (N.I.E.S.R.).

[2] *The Import, Export and Customs Powers (Defence) Act,* 3rd September 1939.

[3] *Import of Goods (Control) Order, 1940,* 4th June 1940.

In its hey-day the import programme was made up of a Commodity Budget and a Currency Budget. The former listed the requirements of the various buying departments and control organisations responsible for government imports as well as the estimated needs of the private sector, administered by the Import Licensing Branch. Against this was set the Currency Budget, forecasting the available supply of foreign exchange for the period under review. With the Treasury in the chair, the usual inter-departmental method of mutual scrutiny of each others' requirements followed until general agreement yielded a list of estimates, which were then resolved into a programme.

Government Account purchasing dominated the war-time raw materials and foodstuffs sector, but there was no uniform method of buying based on the allocations agreed in the import programme. The departments buying raw materials made general decisions about transactions, leaving execution either to control agencies (e.g. the Timber and Leather Controls) under direct departmental authority, or to the relevant trade associations (e.g. rubber), which were paid a commission by the interested department. In all cases the commercial agents were drawn from the trade, and the degree of direct official buying was largely a matter of personalities. Where departments had senior trade officials on their establishment, dependence upon trade associations was reduced. In general, however, the trade associations were more important than control agencies in administering bulk-purchasing.

The Ministry of Food set-up was rather different. Policy was in the hands of the Food Import Committee which delegated responsibility for commercial transactions to the Ministry's commodity divisions and executive action (e.g. in shipping, etc.) to the freight divisions. In both food and raw materials this war-time system was continued substantially unaltered into peace-time.

Experience gained in the war-time control of private trade proved also to be the foundation of peacetime methods, imports by private traders being controlled through the issue of licenses carrying with them automatic exchange facilities. By the end of the war, four main types of licensing methods were operated by the Board of Trade—the open general, the open individual, the block, and the specific license. These four formed the basis of all subsequent developments in licensing administration.

1. *The Open General License* allowed unrestricted importation by any person of the goods covered without production of a license by

the trader.[4] Geographical discrimination was the only check on complete freedom. Discrimination varied widely between commodities from those completely free to those restricted to specified countries.

2. *The Open Individual License* was 'open' in the sense that no quantitative restriction on value was involved. It differed from the general license in one important point—it had to be held by the authorised importer only and produced to the Customs authorities before the goods were released. Discriminatory regulations also applied to supply sources. These licenses were meant to cover basic imports coming under Ministry of Food and Supply controls. Sometimes they applied to gifts for approved organisations not involving currency transfers. Licences had usually a validity of six months and had to be renewed.

3. *The Block, or Blanket, License* authorised imports of the goods listed up to a stated value in any number of consignments during a given period. Like the open individual license it was normally held only by authorised importers. This type should perhaps be classified under the next heading, since it is better regarded as an early form of global quota.

The Specific, or Individual, Licence, the least flexible of the four types, allowed an authorised importer to bring in only specific quantities of a given commodity at one time from a listed source or sources. Usually, licenses were issued on a non-transferable, quarterly basis, one copy going to the Bank of England and one to the trader's bank for the claiming of the foreign currency. Imports were cleared on presentation of the importer's own copy to the Customs.

In this and in the two previous cases, the authorised importer who had to produce the license was defined as the person finally responsible for paying the supplier. Except for vital raw materials, all applications for licenses had to be accompanied by statements of past trade, certified by an independent accountant.

There were four exceptions to those requirements: Government Account imports; live quadrupeds (until 14th December 1945); goods for privileged persons (e.g. diplomats); and goods for Crown Agents for the Colonies. Two concessions were also operative: personal and household effects of air and sea passengers and crews; and *bona fide* trade samples.

Peace-time Adaptation and the Washington Agreement

The two immediate post-war years of import control were dominated by three distinct factors: the return to a peace-time basis, the

[4] There is only one O.G.L. It is a legal document with Schedules listing the various goods and countries. Copies are published but it is not "issued" to anyone.

political climate under the first Labour administration, and the attempts to implement the trade and currency stipulations of the Washington Agreement.

Viewed from the perspective of the mid-fifties the influence of the Washington Agreement seems to have been the least important, since by mid-1947 its major clauses were a dead letter. The attempts by the U.K. authorities to modify external controls in response to the Loan articles, particularly those relating to dollar discrimination and full sterling convertibility, are of purely academic interest in this context. Such attempts as were made are of value now only as illustrations of the difficulties involved in trying to apply non-discriminatory import restrictions in the teeth of a world shortage of a major currency.

More important are the modifications made in the war-time structure of import control and the influence of socialist thinking on the peace-time structure. The end of the war saw the re-emergence of the foreign exchange problem and control was quickly readjusted on this basis. The influence of political decisions was mainly felt in the continuance of bulk-purchase of the majority of U.K. imports as a necessary corollary of the highly-controlled internal economy. It was felt by the government that the quickest road to recovery lay along the route of the planned economy; tight import control was but one feature of such an economy.

The positive advantages claimed for bulk-purchase stemmed from general economic conditions. General commodity shortages, the continued existence of international allocation agreements in raw materials, bilateral bargaining, long-term contracts still in existence and extensive internal controls all presented powerful practical arguments for the maintenance of government purchasing arrangements.

Little was known about the mechanics of large-scale licensing of private imports, so that early moves in this direction were cautious and limited in extent. Although quantitatively of small importance the arrangements for controlling the first peace-time private imports formed the basis of the structure as it operates today. The balance of payments situation in 1945-6 was sufficiently ominous to ensure that the small private import trade was mainly licensed by the strictest war-time licensing method, that of the Individual or Specific License.[5] Where the trade was in consumer goods excluded in war-time, the methods were fairly uniform. The Board of Trade would invite application from pre-war importers warning them that only small quantities of the goods would be licensed. In addition to the provision of certified pre-war

[5] The *Economic Survey for 1947* gives a figure for planned imports of consumer goods of £35 m. out of a total of £1,450 m.—approximately 2 per cent. of the total import programme.

trade figures, evidence had to be submitted by *bona fide* traders that firm domestic offers for the goods had been received, and that these goods would be subject to the domestic price regulations. (Where goods had been imported during the war, quotas were allocated on the basis of war-time figures.)

Open Individual and Block Licensing arrangements at this early stage remained largely inoperative, but the Open General License began to take its present general shape. By May 1946 the O.G.L. can be divided into 'World' O.G.L. (completely non-discriminatory imports), 'Sterling Area' O.G.L., and 'Restricted' O.G.L., the latter being confined to a single or limited number of specified countries (e.g. Eire, Malta, etc.). Foreign exchange was freely available to the importer on proof that payment was for goods on O.G.L. The *Consolidated Notice to Importers* of May 1946[6] crystallised the immediate peace-time changes in O.G.L. procedure and set a pattern which has been followed by all subsequent *Consolidated Notices.*

Open licences were granted in the rare cases where, because of internal demand conditions or the type of foreign currencies involved, no danger to the balance of payments was felt to exist. In other cases, the Specific License was preferred. The use of Specific Licenses was governed by the familiar doctrine of essentiality.

According to the rules circulated early in 1946 covering decisions on Specific Licenses, 'essential' imports were those necessary, firstly, to rebuild the home market and develop full employment on a peace-time basis; secondly, to build up the export trade; and finally to implement the government's plans.

Several measures were taken to ease the rigidity of the control on private trade. The most important[7] was the launching in April 1946 of the Token Import Scheme in response to pressure by Canadian manufacturers for opportunities in the totally closed British market. Specified Canadian exporters were allowed to send 20 per cent. by value of their 1936-38 average exports for an agreed list of about fifty items, mainly consumer goods, but including also some goods for industry. By February 1947 the scheme had been extended to U.S.A. and ten European countries on the same basis. When the convertibility crisis broke, about 200 commodities were covered, a figure not substantially altered since, although the fifteen countries covered by

[6] Information on changing licensing procedures has always been available from the Import Licensing Branch of the Board of Trade in the form of *Notices to Importers.* These notifying additions to, or deletions from the Open General License are consolidated periodically.

[7] A temporary and minor lifting of restrictions was allowed in order to ease the difficulties of certain European countries experiencing severe post-war dislocation (e.g. France and Holland).

August 1947 were reduced to Canada and the U.S.A. alone in late 1951. After some fluctuation, the value of the quotas settled at 30 per cent. of the 1936-38 average value, a figure which still operates today.

Until the development of trade liberalisation, this scheme represented the only major relaxation in the strict licensing arrangements for manufactured imports. Officially interpreted as a 'good-will' measure, the scheme could not be extended, as was carefully pointed out at the time, to countries which did not offer the U.K. an adequate return within her general trade agreements with them. Within broad limits the administration of the scheme has remained largely unaltered since its inception. The overseas exporters were specified by their respective governments once it had been established that their exports entered into the 'traditional' trade of the U.K. The prospective importer had to obtain the necessary certificate of authorisation, or 'scrip', issued to the exporter by the relevant government department (e.g. the Canadian Trade and Commerce Department) so that the goods listed in his application conformed to the output of the specified exporter.

The High Noon of Bilateralism

Non-discrimination broke down on 30th June 1947 when the first of the three dollar cuts was announced, and convertibility collapsed on 20th August when transferability rights on sterling accounts were suspended. For the next two years hard currency discrimination became a key-note of trading and financial policy. Not only was dollar discrimination severely applied, but the breakdown of general multilateral payments involved the laborious reconstruction of the immediate post-war system of bilateral trade and payments agreements with all non-dollar, non-sterling countries. The *Economic Survey for 1948* crystallised the new policy: reduction of all dollar purchases 'to an absolute minimum' and 'the greatest possible diversion of purchases to other sources of supply'.

Towards the sterling area an 'open-door' policy was applied and sterling sources were strenuously exploited. In the third main group of countries the state of the bilateral balance decided whether individual countries were classified hard or soft, and its members fluctuated throughout the range according to the availability of their currencies. These were the days of the Board of Trade's 'football league' when countries moved up and down the ladder according to trading developments, although several consistently hard currencies did emerge, e.g. those of Belgium, Luxembourg and Switzerland.

The rules were applied, both in Government Account buying and import licensing, and in a series of monetary and payments agree-

ments ; these agreements varied in detail, but all contained a common form of credit limitation, inconvertible debit balances being accumulated by the debtor only up to the limit of the agreed ' swing ', and the remainder of the balance being payable to the creditor in gold or dollars. Where no loss of gold and dollars seemed likely, a limited supply of consumer, and even ' luxury ' goods was allowed, although not until the availability of more essential alternative imports had been explored. Where the balance was unfavourable, severe discrimination between supplies was applied.

The negotiation, structure and difficulties of the bilateral trade agreements and the importance within them of official bulk-buying form a complex subject of their own.[8] It may be observed, however, that government buying was concerned solely with basic supplies (normally in short supply), leaving licensed private traders to handle the less essential items agreed upon in the trade discussions. Within the 18 per cent. rise in total intra-European trade between July - December 1947 and July - December 1948, a 50 per cent. increase in the flow of basic supplies more than offset a 20 per cent. reduction in so-called ' non-essentials '.[9] It seems fair to associate this striking channelling of the limited foreign exchange facilities provided in the agreements into the financing of essential trade with the extensive use of the bilateral quota method of restricting private trade in ' non-essential ' goods.

The bilateral quota was the result of an undertaking by the two contracting countries to license up to an agreed level specified commodities to be handled by private trade. A common feature of all these bilateral agreements was their permissive rather than contractual nature, the quotas being merely mutual undertakings to issue licenses up to the stated amount if the demand existed. The quotas were normally administered by issuing individual licenses to established traders who could provide trade figures, certified by an independent accountant, on which was based their allocation within the quota. In some cases the allocations were made by the overseas authorities, but this generally represented a concession by the government which was not popular with U.K. importers since they regarded it as a break with the strict Board of Trade policy of ' fair shares ' between home importers. In an effort to reduce the third country discrimination implied in such arrangements, competing imports were licensed from other sources as far as the payments position permitted.

[8] An excellent analysis of the Ministry of Food's long-term contracts is contained in the *Economic Bulletin for Europe*, Vol. 3, No. 1 (1951).

[9] *Economic Survey of Europe, 1948*, Table 86.

Apart from this development of the bilateral quota as an important feature of licensing, only one other notable modification of the system was made at this time. With control at its tightest in a period of expanding export trade there was a very real need for some relief to exporters using imported supplies either for straight re-export or after incorporation into a manufactured article. Thus were floated the REX and UX re-export schemes, conceived as conscious safety-valves in the overall structure of control.

REX procedure dealt with imports which were re-exported in the form in which they were imported; UX with imports designed for processing or incorporation into manufactured exports. The most quoted example of UX concerns the exporter of railway-engines whose customers insisted that the distinctive American engine-bells should be provided. In this case, the dollar outlay was considered justifiable because of its crucial selling importance and its small share in the total export proceeds. In the case of REX, hard imports were allowed only if re-exported to hard destinations, control being operated by export licensing. With UX, the problem of hard imports incorporated into soft imports was tackled by demanding information on the proportion of final costs accounted for by the imported item and the percentage 'uplift' after processing. In both cases, each application was examined on its own merits under the general rules of specific licensing; and, as in all cases of imports dealt with on merit, endless difficulties of interpretation, balanced judgement, biased sources of information, etc., were met. Liberalisation has greatly reduced the significance of these methods, though they are still of importance for some types of dollar imports.

In mid-1949 two important events took place: the dollar cuts and devaluation, and the initial steps towards freeing non-dollar trade. Devaluation does not concern us, nor do the dollar cuts, although the latter afford excellent examples of the difficulties involved in applying short-term corrective measures to the import sector. For the development of import control, the major factor is the gradual awareness during 1949 that the limit of trade expansion based on purely bilateral arrangements had been reached.

Devaluation brought a greater degree of equilibrium in the bilateral balances with non-dollar areas and in the expectation that a fully multilateral European payments system would come into operation in 1950, the O.E.E.C. called for some measure of trade liberalisation amongst member countries. The U.K. took the lead and the Board of Trade in October 1949 put a wide range of consumer goods supplied by these 'relaxation' countries on Open General License. The third

period in import control—that of initial liberalisation—lasted until the retreat following the payments crisis in the summer and autumn of 1951.

Initial Liberalisation

The two fundamental factors in this period were the formation of the European Payments Union in June 1950, and the onset of the Korean boom. The first provided the necessary multilateral clearing facilities whereby large-scale relaxations on the intra-European trade were adopted ; the second boosted the sterling area's gold and dollar reserves sufficiently for substantial easements in dollar controls to be achieved.

Before the formation of the E.P.U., the first open licenses were extended only to those countries where there was no risk of hard currency loss ; these included the Sterling Area, most O.E.E.C. countries (except W. Germany, Switzerland, Belgium and Luxembourg), and certain other non-dollar countries. A full official statement in July 1949[10] indicated the initial reservations placed by H.M. government on their proposed relaxations on non-dollar trade. In addition to the restriction on countries where gold or dollar losses might be incurred, it was stressed that successful U.K. action depended upon reciprocal European action. Finally, no items would be liberalised when they competed directly with domestic manufactures which were curtailed in the U.K. market because of their high hard currency earning potential.

Discrimination between members of the E.P.U. became pointless, and indeed was forbidden under the Code of Liberalisation as from 1st January 1951. The steady stream of O.G.L. amendments which followed the original October 1949 announcement became applicable to a very large area, comprising the whole world except the Dollar Area, the Soviet Bloc (excluding China), Argentina, Japan and Korea. The 'soft' Open General License, as it was then called, was the instrument whereby in November 1951 over 90 per cent. of the U.K.'s 1948 private trade with O.E.E.C. had been freed from quantitative restriction.[11] In addition, it was officially claimed that this understated the extent of actual freedom since Government Account purchase of goods on O.G.L. (mainly foodstuffs) were conducted under the

[10] President of the Board of Trade, *Hansard*, 7th July 1949.

[11] The term 'q.r's.' (quantitative restrictions) is currently more widely used than 'Import Quotas' to distinguish the heterogeneous post-war practices from those of the 1930's, when the usual import restriction was a single quota involving a value ceiling for specific goods over specific time-limits ; see H. Chalmers, *Foreign Commerce Weekly*, August 1949.

rules of the draft Havanna Charter, i.e. 'on a basis equivalent to unrestricted private buying.'[12]

Attempts were made to give priority to those goods on the O.E.E.C.'s Common List the freeing of which was expected to be of major importance in boosting intra-European trade. But the need to protect home industries not fully free to compete in the U.K. market ensured that quite a number of Common List goods remained strictly controlled, particularly high quality pottery and textile goods.

Block licensing arrangements administered by the Board of Trade in conjunction with the Ministry of Food also became more widespread after December 1949, though some mystery surrounds their real nature. Nominally, under such arrangements the traders involved were allowed to import the specified goods freely up to a ceiling fixed by the programme for these items, the licenses then being withdrawn. Apparently, however, no ceiling was given for certain products and virtually free importation was allowed for biscuits, chocolates and confectionery products in particular.

The peculiar value of the block licensing technique lay in its flexibility, a quality particularly needed by perishable food imports. Of interest in this context are the arrangements developed for controlling the heavy seasonal imports of European fresh fruit and vegetables, which had been put on O.G.L. as a result of liberalisation. In the interests of domestic horticultural producers these O.G.L.'s were suspended during the season of peak home production, being replaced by block licensing procedures during the restricted period.[13] Value or quantity quotas were established to provide a ceiling for the Block Licenses. Under this system importers were free, during the quota period, to import without restriction, provided a weekly return of past trade and estimated future trade was sent to the Ministry of Food. On the basis of this trade information, licenses were cancelled when it was estimated that established quotas were being fulfilled. Such a system had certain advantages. It was a useful means of regulating imports with a minimum of interference in established trade in perishable goods, most of it on a consignment basis ; and it was far more flexible than specific licensing. Dates were fixed well in advance for the suspension of the Open License : if home production failed to materialise and supplies grew short, then the suspension date was moved back until home production picked up.

[12] President of the Board of Trade, *Hansard*, 15th December 1949.

[13] These 'seasonal' O.G.L.'s, as they were called, had been in operation in 1946-7, before they were withdrawn in the 1947 crisis ; but during the restricted period imports were put on Specific, not Block, licensing procedures.

Apart from these non-dollar relaxations the onset of the Korean boom led to substanial easements on trade with North America as the dollar balance improved. The extent of government buying contracted as several major materials were handed over to private trade under world open individual licenses. World O.G.L.'s were granted to other restricted materials, and policy decisions on individual licensing applications for important supplies were widely relaxed. In addition, the signing of the sterling oil agreement in February 1951 led to important modifications in the petroleum programme.

The proportion of total imports bought on Government Account fell from 51 per cent. to 26 per cent. from 1949 to 1951. Much of this was accounted for by liberalised trade in consumer goods and foodstuffs with Europe, but several important raw materials were put on individual or specific licenses as well. Of these only tin and cocoa, mainly sterling items, were put on a completely non-discriminatory basis, tin in July 1950, cocoa in November 1950. Softwood was freed from soft sources only, while paper-making materials were put in private hands on the basis of specific licenses. The rules under which the tin and cocoa markets re-opened formed the basis for the later development of commodity dealings. Freedom to import was given under six-monthly world open individual licenses, granted in general to traders working in a trade association and under obligation to provide regular returns to the Bank of England. About fifty items were placed on world O.G.L., equivalent to completely uncontrolled buying. They were mostly key raw materials in short supply during the Korean stock-piling scramble : carbon black, asbestos, iron ore, iron and steel scrap, etc. Additional dollar relaxations were allowed on consumer goods by modifications to the Token Import Scheme,[14] where the permitted quota of 1936-8 trade was raised from 20 per cent. to 40 per cent. Administrative easements were introduced so as to allow hitherto unlicensed exporters to take up unused quotas and thus unfreeze trade from the 1936-8 pattern which it had tended to follow.

As might be expected during a period of general relaxation, a certain flexibility was being introduced into the administration of specific licensing. Applications were now being invited from *bona fide* traders, the earlier insistence upon pre-war traders having disappeared, and there were fairly general extensions both in the number and value of licenses. Although the granting of dollar licences was still mainly confined to plant, machinery, chemical and other important materials, these applications were subject to more generous decisions by the authorities.

[14] President of the Board of Trade, *Hansard*, 17th December 1950.

A major development was the signing of an Anglo-American agreement over petroleum purchasing, announced in Parliament in February 1951. The net result was the placing of petroleum products on 'soft' open individual licensing as the dollar content of oil imports was reduced. The expansion of domestic refining capacity was reducing dependence upon imported refined products; this agreement reduced the dollar content of the non-sterling international oil companies' operations in the United Kingdom to a level comparable with that of British-owned companies operating largely in the Middle East: no figures are officially quoted, but it is believed to be in the region of 30 per cent.

Interregnum

The wholesale emergency actions of November 1951 brought the period of gradual relaxation to an abrupt end. The twelve months which follow, although forming a break in the continuity of the story, are important because they stimulated several developments in import control and illustrated the difficulties involved in using quantitative restrictions as emergency remedies for the correction of a severe external payments deficit.

Although the reserves fell by $600 m. in the three months from 30th June to 30th September no action was taken until the Prime Minister announced on 6th November that the annual deficit was running at £500 - 600 m. Next day the Chancellor announced wholesale emergency measures, with effect from 8th November. The chief of these were directed against the recently freed trade with soft currency areas, particularly Western European countries. As a result of fairly drastic pruning of the items added to the O.G.L. list from 1949 to mid-1951 the 'liberalisation percentage' was cut from 90 per cent. to 65 per cent. in November and to 45 per cent. in March 1952. Towards the sterling area, an 'Open Door' policy was adopted[15]; towards the dollar area, a general tightening of existing restrictions took place, characterised by a cut in token imports from 40 per cent. to 30 per cent. of 1936-8 trade.

Difficulties were encountered in attempting a controlled reduction of European trade in conformity with the non-discrimination rules of

[15] A major exception to the freedom allowed sterling goods was the February 1952 removal of sugar products from sterling area schedule of the Open General License. It is officially stated that 'control of these imports is intended to prevent an increase in imports which might involve a reduction in U.K. supplies of raw sugar purchased from the sterling area under the Commonwealth Sugar Agreement, a reduction which could not be restored without dollar expenditure'. (*Notice to Importers No. 475.*)

O.E.E.C. To this end the global quota[16] was the device used, these quotas being applicable to all the countries affected by the revocations and so avoiding discrimination between them. Global quotas were allocated amongst importers on the basis of their trade under open license, generally between January and June 1951. The severity of the cuts varied between commodities; the quotas announced for textile manufactures in May 1952 amounted to only one-third of the equivalent 1951 imports, but for most goods the average quota was about 60 per cent. of 1951 levels.

The choice of goods for control also caused difficulties. The official explanation states[17] '. . . we have framed our list in a way which secures the maximum saving consistent with the minimum damage to the liberalisation of inter-European trade. . . . It has not been an easy choice to make. . . . We have had to leave aside . . . a whole mass of the much smaller imports which, if cut down, would require the maximum of effort, cause the most widespread irritation and . . . have the minimum effect upon savings. . . .' Common List goods would also be left out as far as possible, since European countries attached particular importance to this. The Government were following the well-established principle, based on war-time practice and most clearly stated by Cripps in the July 1949 debate on the dollar standstill orders: 'we should cut the big items with ascertainable effects rather than the small ones with unpredictable effects.'[18]

The third difficulty lay in getting quick results without dislocating trade and causing great hardship. Although bitterly attacked for the alleged inadequacy of the January-June 1952 quotas, the Government defended itself by claiming that if contracts had been broken, if hardship had been ignored and if the cuts had been applied over the whole range of imported supplies 'there would have been a much more rapid effect from these cuts'.[19] By honouring all contracts signed before November 1951 and allowing goods already in the pipe-line to enter the country, the authorities consciously weakened the value of their restrictions in favour of commercial justice. It seems likely that the philosophy of the new administration had an influence on the rigour with which these controls were applied; at any rate the Government seemed satisfied that 'within the limits of what one can do in a reasonably free economy our cuts are working . . . in the right direction'.[20]

[16] These global quotas were a logical development of the block licensing techniques previously described. With the growth of global quotas the block licenses became defunct.

[17] President of the Board of Trade, *Hansard*, 9th November 1952.

[18] *Hansard*, 14th July 1949.

[19] Debate on Economic Situation, *Hansard*, 29-30th July, 1952.

[20] Ibid.

In the dollar sector, the main changes were a reduction to 30 per cent. in the proportion of pre-war trade allowed in consumer goods under the token import scheme[21] and an abrupt tightening up of general dollar licensing criteria. The impact of the latter decision fell mainly upon Ministry of Food imports (e.g. cheese).

The Return to Private Trading

With the easing of the strain on the reserves, the current and most coherent phase in import policy was heralded in November 1952 by the return of lead trading to private hands and the placing of softwood imports on world O.I.L. The steady recovery through 1953 gave rise to three distinct developments: firstly, the adoption of the policy of the widest possible access to raw materials and basic foodstuffs: secondly, and bound up with the first, the abdication of the government from the importing business: finally, the relaxations associated with the increasing impetus towards 're-liberalisation' of O.E.E.C. trade. Relaxations in dollar and '3-nons'[22] trading have also taken place, although no fundamental changes have been introduced.

Space does not permit a full account of the return to private trade of practically the whole of government-purchased goods[23] or the re-opening of the international commodity markets. Interest does lie, however, in the operation of the rules under which these markets have achieved non-discriminatory buying within the general framework of exchange regulations. In all cases, dealers are free to buy without restriction from any source under O.G.L. or world O.I.L. Generally, this privilege was given initially only to traders acting under the discipline, often purely nominal, of a trade association. In most cases, the license was that of the Open Individual type; raw cotton, freed as from 1st September 1954, was the chief exception, being on O.G.L.[24] In this way the authorities hoped that traders would gain the advantage of free buying in the cheapest market.

It is in the freedom to re-export that differences appear in the various markets. Rubber and tin, principally sterling commodities,

[21] A change in the membership of the token scheme was also initiated by excluding all its members except Canada and U.S.A. The general relaxation of import restrictions from these non-dollar members had, in effect, overtaken the Token Import quotas, making their continued participation in the scheme superfluous. For North America, however, the scheme was still important; the continued severe restrictions on dollar consumer goods meant that it was the only existing method of alleviating the undoubted injustice to North American exporters of manufactures traditionally bought by the U.K.

[22] I.e., non-dollar, non-sterling, non-O.E.E.C. More recently, these areas have been described, together with O.E.E.C. members, as 'relaxation' countries.

[23] The outstanding exceptions now are newsprint and jute manufactures.

[24] For purely technical reasons, dollar cotton was subjected to Open Individual licensing in June 1956.

and the metals, lead, copper, and zinc, with no great dollar content, were given freedom to be sold anywhere for any currency. Here, complete arbitrage freedom and commodity convertibility have been achieved. The only part played by Exchange Control is the receipt of monthly trade returns to check the state of the market. No action to date has been deemed necessary to curtail dollar losses.

Coffee, cocoa and sugar are a little more restricted. Coffee and cocoa can be sold freely in the sterling area and in the E.P.U. area. Raw sugar for re-export[25] can be sold anywhere outside the Sterling Area but only for gold or dollars. The other two major markets, raw cotton and grain, also work under this 'dollar for dollar' rule, the check being applied through export licensing for cotton and weekly or monthly trading returns for grain. The authorities have not forgotten the lessons of the August 1952 arbitrage experiment when in one week of completely unrestricted trading £61 m. of goods were sold to E.P.U. members, the main items being coffee and grain.

The success of these commodity markets lies in the full measure of non-discrimination achieved in relation to the bulk of the U.K.'s basic supplies, within a framework of exchange and trade controls so modified that the authorities can keep an eye on risky tendencies as they develop. The informal gentlemen's agreements which seem to cover most O.I.L. arrangements are such that the authorities can notify the relevant trade associations of any undesirable developments, leaving disciplinary action to the association. Although formal notice is always given that these licenses are liable to revocation or withdrawal, in practice the authorities tend to rely on the co-operation of the traders in following the rules of the game.

Outside the commodity markets, world open licenses have been granted for other supplies, not traditional re-exports, enabling importers to buy from the cheapest source. Together with the re-opening of the international markets these developments freed just over half U.K. imports of operative dollar restrictions by January 1956.[26] A further relaxation of dollar controls on raw materials and metal manufactures used by industry took place on 1st August 1957, the net result being to place all industrial materials, except leather, on World Open License.

The licensing structure has been considerably extended as former Government Account goods were returned to private trade and as the steady recovery since 1952 enabled more generous allocations to be

[25] Sugar, the last major terminal market in London to be re-opened, reverted to full private trading on 1st January 1957, and raw sugar for domestic consumption is now imported freely on private account from member countries of the International Sugar Agreement.

[26] European Payments Union, *6th Annual Report of the Managing Board*, Sept. 1956, Table 4.

made. For instance, by mid-1954 applications to import machinery were being subjected to much less rigorous examination. Many of the items released from bulk-buying are consumer goods and, as such, have not been granted complete non-discrimination. The dollar balance is still sufficiently weak to ensure that the import of goods is confined to non-dollar sources, though in many cases, even within non-dollar markets, discrimination is still maintained. This is especially true of 'luxury' food imports like cream and canned tropical fruits which are restricted to specific license outside the sterling area on a very small currency allowance.

Where discrimination was against dollar imports only, as in the great majority of cases, the usual technique was that of the 'soft' O.I.L. (more widely known as the 'relaxation' O.I.L.). The return of these goods to private trade caused some problems, particularly in the choice of licensing technique. Government policy was avowedly to disband public trading agencies in order to free imports. Hence specific licensing was undesirable,[27] despite the obvious dangers to the reserves of restoring private trade over such a large sector. This very natural official fear of possibly uncontrollable developments on the 1951 scale ruled out the Open General License as the main method, since this would be equivalent to unrestricted private buying.

Most of these commodities were put on O.I.L. because of the possibility of some kind of official control. With O.G.L.'s the importers could not be identified ; in many cases O.I.L.'s were only granted on the understanding that traders were to provide regular information under the Statistics of Trade Act. In the event of a new payment crisis O.I.L.'s would provide a sounder base for the speedy and smooth introduction of quotas. The limited length of life—maximum one year, usually six months—would limit the number of long-term contracts made by traders ; and these contracts proved a serious obstacle in applying the 1951 cuts. Secondly, the regular return of trading figures would enable the authorities to assess trading tendencies more accurately in the event of a crisis.

By March 1953 the E.P.U. position of the U.K. had improved sufficiently for relaxation in the de-liberalised sector. Previously the Government had announced its intention of increasing the original quotas in order to aid some European countries which were in difficulties over the U.K.'s import cuts.[28] In March, however, a wide range of consumer goods was restored to O.G.L., and global quotas given

[27] It was also difficult, since allocations would have to be made on 1939 trade figures. In some cases quotas are allocated on 1939 trading, but this is rare.

[28] *Hansard*, 16th December 1952.

increased values. In November, further relaxations were announced, mainly of goods liberalised before November 1951, few completely new items being added to the list.[29] These two major steps towards freeing European trade raised the liberalisation percentage to the 75 per cent. minimum required by O.E.E.C. of countries not in balance of payments difficulties.

By March 1954 the liberalisation percentage had climbed back to 80 per cent.: thereafter the pace slowed considerably as the scope for further relaxations narrowed and the external payments situation deteriorated in late 1955. By December 1955 liberalisation had advanced only to 85 per cent. In February 1956, however, O.E.E.C. called for a 90 per cent. liberalisation and on 22nd July the U.K. felt itself able to take a major step forward to 94 per cent. liberalisation—a percentage which, at the time of writing, is second only to Italy's and well above the O.E.E.C. average of 86 per cent. This has been achieved by returning paper (apart from newsprint), paper board and all paper-making material to private hands under world open license. Official explanations of the decision to free paper materials point to the drop in U.K. demand for these items, the swing away from dollar sources and increased domestic production.[30] One more restricted commodity, pigmeat, was freed from 1st October 1956 when state trading in bacon terminated.

This recent action has special significance since the 1956 economic climate, only very slowly reacting to monetary pressure, seemed to favour a re-introduction of physical controls as an aid to the more orthodox deflationary measures against the import bill. The tariff is now almost the sole restriction on private buying from non-dollar sources apart from Iron Curtain countries, where supplies are on bilateral quotas.

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[29] Nylon stockings and decorated pottery, which were previously completely excluded, were put on global quota as the ban on home sales by domestic producers, designed to boost exports, was lifted.

[30] *Financial Times*, 17th July 1956.

STUDENT INCOME AND EXPENDITURE IN THE UNIVERSITIES OF GLASGOW AND BIRMINGHAM: A COMPARATIVE SURVEY

In 1952 an analysis of the expenditure of Glasgow University students was carried out by Dr. Jean Pattison of the Dundee School of Economics on behalf of the Scottish Union of Students.[1] Four years later, the Union decided to undertake a similar survey, the scope of which was extended to include Birmingham University. Birmingham seemed the obvious choice as a counterpart to Glasgow. Both are industrial towns, similar in size, and specialising in the coal, metal and engineering trades. Although the Universities differ in age by as much as 400 years and in size by 3,000 students, they attract undergraduates of similar types. How do these students live? How do they spend their money? How do they obtain it? It was in order to answer these questions and to provide a comparison between the students of the two Universities that the survey was undertaken, starting in February 1956.[2]

Every tenth student on the matriculation rolls of the Universities was sent a questionnaire, and out of 580 forms sent out in Glasgow 349—60 per cent.—were returned. This is a very satisfactory return for a survey of this kind and compares favourably with the 37 per cent. response in 1952. Of the 349, 26 were rejected as postgraduate and 6 as single class enrolments. In Birmingham, 187 forms were returned out of a total of 321, an average of 58 per cent.; of these, 8 were rejected. The percentage of returns in each faculty corresponds fairly closely with the corresponding percentages on the matriculation roll. (See Table I.)

Extensive analysis has been carried out by Union officials working on a voluntary basis and much detailed information has been produced. The data have been analysed by faculty, sex and residence ; individual items of expenditure have been correlated with grant income ; and the frequency distribution, quartile ranges, etc., have also been worked out. For present purposes it is proposed to deal with income and expenditure as a whole, using this detailed information for comment only.

[1] Dr. Pattison published the results in the *Bulletin of the Oxford Institute of Statistics*, Vol. 15, No. 5 (1953).

[2] I should like to acknowledge the help given to the Union in the preparation of this survey by Professor A. K. Cairncross, Dr. T. T. Paterson and Dr. John Highet, of the Department of Social and Economic Research at Glasgow University.

In Glasgow, of those who returned forms, 235 were men and 64 women. Nine of these students were married and 73 per cent. (a rise of 3 per cent. from 1952) lived at home compared with 34 per cent. in Birmingham.

Sources of Income

The student has four normal sources of income: a grant from public funds; a bursary or scholarship, either 'open' (i.e., won in open competition) or restricted; vacational employment; and assistance from parents and relatives.

Table I

DISTRIBUTION OF UNDERGRADUATES CLASSIFIED BY FACULTY

Faculty	Number returning forms	Percentage in each faculty	Number on matriculation roll	Percentage
Glasgow				
Arts	95	29·4	1638	26·5
Law	28	8·0	500	8·1
Science	75	23·2	1345	21·8
Medicine	73	22·6	1517	24·5
Engineering	42	13·0	913	14·8
Divinity	4	1·2	93	1·5
Single class enrolments	6	1·9	174	2·8
Total	323	100·0	6180	100·0
Birmingham				
Arts	33	17·7	749	23·3
Law	7	3·7	105	3·3
Science	99	52·9	1425	44·3
Medicine	36	19·3	711	22·1
Commerce	12	6·4	225	7·0
Total	187	100·0	3215	100·0

With the exception of a small number of awards from the Education (Scotland) Fund to supplement open scholarships won by Scottish scholars at English universities, there is nothing in Scotland comparable to the State Scholarship in England and Wales: all awards from public funds are made by education authorities. It is for an authority to decide whether or not to make an award to a particular applicant. But when they do make an award they must conform to conditions laid down by the Education Authority Bursaries (Scotland) Regulations.[3] These provide for estimating the expenditure to be incurred by the applicant and fixing the parental contribution. By deducting

[3] The Regulations operating at the time of the survey were the Regulations of 1953 and 1955. New Regulations came into force on 1st July, 1957.

allowances under four heads (two of which leave the amount of allowance to the decision of the authority) from total income, a 'balance of income' is arrived at. A statutory scale in the Regulations shows the parental contribution required at the various 'balance of income' levels. If this contribution is less than the estimated cost of the course the education authority pay the difference; if it is the same or more, no grant is given.

In arriving at their estimate of the cost of the course, authorities are required to take into account expenses under seven heads: (1) all fees necessarily incurred (a fixed item); (2) an allowance for books, instruments and materials; (3) an allowance for expenses involved in University club or society membership; (4) a term-time allowance, fixed by the Regulations of 1953 and 1955 at £2 5s. per week for a student living at home, and at £3 15s. a week for a student living away from home; (5) a vacation allowance, fixed at the time of the survey at £2 5s. per week for a statutory minimum of four weeks or as many weeks above that minimum as an authority may decide to allow; (6) necessary travelling expenses; and (7) 'other normal expenses', fixed at the time of the survey at £30 per annum.

It will be seen that the estimating of amounts under four of the above heads is at the discretion of the education authority. In this situation there is obviously the possibility of regional variation. The Scottish Education Department have urged upon authorities the desirability of eliminating wide variations so far as possible; but a survey by the Scottish Union of Students in 1956, *Education Authority Practice in Awarding Bursaries,* provides evidence of considerable disparity in regional estimates. For example, the allowances for books, instruments and materials varied, for Arts students, from £5 to £15 and for Medical students from £5 to £30; eight authorities made no allowance for 'corporate life' while the maximum, awarded by six, was £3; in respect of vacation allowance there was a range of from £9 to £50; and the allowance for travelling expenses varied from £6 to £26.

In Birmingham the machinery of Local Education Authority awards is similar to that in operation in Scotland, but there are available to Birmingham as to other English students scholarships awarded by the Ministry of Education on a merit basis.

Of the students covered by the survey, 70 per cent. in Glasgow and 87 per cent. in Birmingham received an education authority grant. (In 1952 the Glasgow figure—then 51 per cent.—was substantially less.) One-fifth of these students stated that they could get by on their grant supplemented by vacation earnings. The

remainder of these grant-aided students, whether undertaking vacational employment or not, had to rely on the financial support of parents or relatives or had to draw on their independent means. The Birmingham proportions were two-fifths and three-fifths respectively. Apart from vacation earnings, the vast majority of the non-grant-aided students relied on parental support: only 1 per cent. of this group in both Universities appear to draw on independent means.

Scotland was at one time noted for its provision of bursaries from private foundations. Bursaries of this type, coupled with Carnegie awards, made for many decades a substantial contribution to the cost of attending a University. Now, however, restricted and open bursaries —the great majority of the latter being awarded on performance in University examinations taken prior to entrance—have decreased in value, and it is unusual for a Carnegie award to be given in addition to an education authority grant.

A third possible source of income is vacation earnings. The usual University session is about thirty weeks—in Arts in Glasgow it is twenty-six weeks—so that about half the year is left for vacations. In recent years especially, much controversy has centred on the issue of vacational employment. It is not necessarily an unsatisfactory state of affairs that the student should spend part of his vacation in paid work; this should not only allow him a small measure of economic freedom but also afford him an opportunity to broaden his outlook.[4] As long, however, as vacation employment is an economic necessity, the normal student will apply for a job which will bring greater financial returns than educational and social benefits. Parents and, indeed, the community expect the student to employ himself in a lucrative job.

It is hardly too much to say that protracted vacational employment is in process of becoming virtually an essential part of student life; the student survey shows that the great majority of students spend

[4] Sir Hector Hetherington, the Principal and Vice Chancellor of the University of Glasgow, in response to a query, replied as follows: 'As you know, the Scottish, and indeed the Britisn, University system is built on the assumption that a student takes a good deal of independent responsibility for his work, and indeed that he does an important slice of it in his private study in the relatively lengthy vacations. I see no harm in a student's working in outdoor employment during part or even the whole of that period of the vacation which he would normally spend on his personal holiday. Indoor employment is a different matter. There is no recreational benefit in that. But of the twenty odd weeks of the year in which a Scottish student is free from classes, certainly he ought to spend considerably the greater part on his studies.'

their summer earning money. Table II shows the gross summer vacations earnings of students in three faculties:

TABLE II

NUMBER OF STUDENTS IN THREE FACULTIES AND THEIR GROSS SUMMER VACATION EARNINGS

Gross earnings	Arts		Medicine		Science		Total	
	Glasgow	B'ham	Glasgow	B'ham	Glasgow	B'ham	Glasgow	B'ham
Nil	23	7	29	26	11	23	63	56
Under £20 . . .	12	7	4	3	6	11	22	21
Under £30 . . .	9	3	11	1	8	17	28	21
Under £40 . . .	14	1	5	2	9	8	28	11
Under £50 . . .	9	5	5	—	11	9	25	14
Under £70 . . .	11	2	12	2	12	9	35	13
Under £90 . . .	3	2	2	1	7	6	12	9
£90	6	1	3	—	2	—	11	1
Not stated . . .	8	5	2	1	10	8	20	14
Total	95	33	73	36	76	91	244	160

The range of jobs was extremely varied but most of them were of such a nature as to preclude concentrated study. Women students earned on the whole less than their male counterparts although on average they worked for the same length of time. Christmas and Easter vacation earnings, excluded from Table II, averaged £10 for each University for each of these periods. The proportion of students undertaking Christmas employment was 45 per cent. in Glasgow and 55 per cent. in Birmingham; and of each group nine-tenths worked in the Post Office. Only twelve students in each University took paid employment at Easter; of these, however, one (a Glasgow student) earned £35 as a labourer and another (again from Glasgow), £36 as a teacher.

Since Engineering students spend from March to September on compulsory practical work, Law students serve throughout the year in offices as apprentices, and Divinity students usually take assistantships or other forms of pastoral work during the summer if not throughout the academic session, these three faculties have been excluded from Table II. These commitments and activities, however, can serve as additional sources of income. The survey revealed that Engineering students earned an average of £68 over the six months of their practical course, while one Divinity student stated that he earned £110 a year as an assistant minister and another that he draws £25 a year from undertaking pulpit supply.

A few students in the faculties covered by Table II managed to fit in jobs during term-time. A Glasgow student earns £175 per annum as a church organist; a medical student has his keep, plus 13s. 8d.

per week, working in a hospital; two science students earn £25 for demonstrations; another student earns £5 a week working for a private firm; and still another, £40 per annum for paper delivery. A student in the Faculty of Science, with no grant or scholarship, stated that he earns £368 per year working as a bookie's runner—a fact not likely to be known to the academic authorities. (No doubt it is this handsome emolument that accounts for this student's expenditure of 36s. per week on alcohol.) In Birmingham, a medical student earns £3 per week in a hospital, a male student finds baby-sitting worth 10s. a week, and a girl student earns a total of £30 as a library assistant. The amounts earned in these term-time services are not entered in Table II.

Table III summarises the average income of undergraduates in all faculties from three of the four normal sources we have been discussing. The question of parental assistance will be discussed in a later section.

TABLE III

AVERAGE INCOME OF UNDERGRADUATES FROM THREE SOURCES

	Glasgow home	Glasgow away	Birmingham home	Birmingham away
	£ s.	£ s.	£ s.	£ s.
Grants	85 8	100 13	108 8	197 19
Bursaries	8 14	17 1	11 17	20 3
Vacation earnings	39 15	39 12	33 11	31 16
Total	133 17	157 6	153 16	249 18

STUDENT EXPENDITURE

For the original (unpublished) analysis of expenditure the mean, median and mode were all calculated. After careful examination, however, the averages were found to be close together, except in the small faculties of Law, Divinity and Commerce and the mean alone is given in the tables below. The figures in the tables show only the Faculties of Arts, Science and Medicine, these, apart from Law, being the only faculties common to the two Universities. Where averages are significant in the other faculties, comments are made. Law returns were the subject of a separate analysis owing to fundamental differences (law students in Glasgow being only part-time and classified as apprentices). In Divinity (Glasgow) and Commerce (Birmingham) the returns are too low for analysis to be meaningful, while Engineering (Glasgow) has a twenty-week session, the rest of the time being spent (as we have noted) on compulsory practical work.

TABLE IV(A)
AVERAGE EXPENDITURE OF STUDENTS LIVING AT HOME

Expenditure	Arts		Science		Medicine		Average for all faculties	
	Glasgow	B'ham	Glasgow	B'ham	Glasgow	B'ham	Glasgow	B'ham
	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.
Fees	26 13	44 11	46 —	38 14	57 —	58 4	34 19	42 15
Other university items	23 11	22 16	24 12	26 17	40 15	26 4	26 18	26 9
Clothes	32 10	24 —	30 5	33 7	33 —	30 10	31 14	30 18
Holiday	30 5	19 12	25 6	36 5	35 3	30 5	25 14	26 17
Entertainment	17 11	29 —	22 5	31 10	24 —	24 2	24 2	24 18
Food	13 13	18 13	18 5	24 7	18 7	21 12	17 6	20 6
Other expenditure	23 5	18 7	24 7	21 3	21 7	22 1	22 5	20 14
Vacation living	48 —	40 —	40 —	40 —	40 —	40 —	42 9	40 —
Maintenance at home	39 —	45 —	45 —	45 —	45 —	45 —	43 1	45 —
Total	254 8	261 19	276 —	297 3	314 12	297 18	268 8	277 17

TABLE IV(B)
AVERAGE EXPENDITURE OF STUDENTS LIVING AWAY FROM HOME

Expenditure	Arts		Science		Medicine		Average for all faculties	
	Glasgow	B'ham	Glasgow	B'ham	Glasgow	B'ham	Glasgow	B'ham
	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.
Fees	26 13	44 11	46 —	38 14	57 —	58 14	34 19	42 15
Other university items	46 15	35 4	33 16	35 7	51 18	34 14	41 —	35 15
Clothes	32 14	20 10	25 13	29 14	27 10	33 3	27 9	28 9
Entertainment	14 19	16 3	21 —	33 —	36 —	18 13	19 19	27 15
Holiday	23 14	32 10	17 4	21 —	23 10	25 6	22 2	24 8
Board and food	88 15	89 16	116 —	95 8	108 12	105 —	94 2	97 6
Other expenditure	17 5	24 6	20 3	30 5	21 5	30 5	18 —	28 18
Vacation living	48 —	40 —	40 —	40 —	40 —	40 —	42 3	40 —
Total	298 15	303 —	319 16	323 8	365 15	345 15	299 14	325 6

The classification of expenditure as given in Table IV differs from the actual Survey form and the 1952 analysis since the figures relate to expenditure by a student for the complete year. Each item will be the subject of individual comment.

(1) *Fees.* This item is fixed and unavoidable and the returns agree with the University calendar. The slightly higher return for Birmingham is due to the fact that a compulsory Union levy is included. This is counterbalanced by the voluntary Glasgow Union subscriptions (contained in ' other University items ').

(2) *Other University Items*

TABLE V

AVERAGE EXPENDITURE ON 'OTHER UNIVERSITY ITEMS'

	Arts				Science				Medicine				Average for all faculties			
	Glasgow		B'ham		Glasgow		B'ham		Glasgow		B'ham		Glasgow		B'ham	
	£	s.	£	s.	£	s.	£	s.	£	s.	£	s.	£	s.	£	s.
Textbooks .	8	2	9	15	6	2	9	—	17	16	12	—	10	2	10	11
Instruments .	1	17	2	6	3	2	4	11	7	11	9	3	3	13	4	13
Subscriptions.	2	11	—	10	2	12	—	14	2	10	—	13	2	6	—	14
Travelling (during term)	11	1	10	15	12	16	12	3	12	18	14	18	10	17	10	11
Travelling (during vacation for students living away from home) . .	23	4	12	8	9	4	8	10	11	3	8	10	14	2	9	6
Total for students living at home .	23	11	22	16	24	12	26	17	40	15	26	4	26	18	26	9
Total for students living away from home . .	46	15	35	4	33	16	35	7	51	18	34	14	41	—	35	15

In all cases the amount spent on textbooks in Glasgow is short of that recommended in the calendar—especially in Law where £5 is spent against the recommended £12. The general rise of expenditure on this item since 1952 is proportionate to the general rise in the cost of textbooks—about 12 per cent. The term 'instruments' includes writing paper, notebooks, scientific and medical instruments, the highest expenditure in both Universities being in the Faculty of Medicine. The Glasgow returns on University subscriptions are higher than those for Birmingham, the main item being Union subscriptions (£2 2s. for men and 35s. for women). Travelling for students living in Glasgow and Birmingham costs roughly the same and there is a rise of a few shillings per week in Glasgow compared with 1952. Sessional travelling covers three return journeys per year for those students who live away from home.

(3) *Clothes*

In Glasgow expenditure by men and women on this item is highest in the Faculty of Medicine but there is little significant faculty variation. Expenditure by men is higher at home than away from home while the position is reversed for women students. The rise in annual

TABLE VI

EXPENDITURE ON CLOTHES

	Glasgow at home	Glasgow away from home	Birmingham at home	Birmingham away from home
	£ s.	£ s.	£ s.	£ s.
Men students . .	30 12	23 5	30 12	24 1
Women students . .	38 15	37 12	31 3	35 6
Average for all students	31 14	27 9	30 18	27 1

expenditure since 1952 averages about £5 at Glasgow. The range of expenditure is extensive: for example, three students stated that they had spent nothing during the year under review while one male student spent £68 (this was noted as representing a complete new wardrobe). One Glasgow woman science student spent £81 14s. on clothes. She lives at home, receives no grant, and spends only £5 on textbooks, earning £31 for vacation work.

(4) *Holidays*

As is to be expected, those living away from home spend less on holidays than those living at home, except in Birmingham in the Faculty of Arts. Returning home is a change and to some extent a holiday in itself for those who spend the University session in 'digs' or halls of residence. The rise of about £8 since 1952 in this item may be due to increased costs and a greater amount of foreign travel, made possible and popular by a vast network of charter flights organised by the national unions of students in most European countries. The mean is, on the whole, higher than the median because of some very high returns by students who travel extensively and expensively abroad.

(5) *Entertainment, Tobacco, etc.*

Students were asked to return their actual expenditure on a sample week, each day of which was marked out on the Survey form. The weekly returns were translated into sessional expenditure by multiplying the average by the number of weeks in the session.

Entertainment. On the Survey form this item covers cinemas, theatres, dances and club meetings. Students living at home who visit cinemas or attend club meetings have to spend more on travelling and many need money to take tea at the University when attending a meeting or function held there in the evening. The person who lives at home does not enjoy the intimate atmosphere of halls of residence, and entertainment becomes artificial and consequently more expensive.

One Glasgow student who lives at home spends 40s. per week on entertainment while a Birmingham student spends 50s. per week.

Tobacco. Where no return under the heading ' tobacco ' was given, students were asked to indicate whether they were in fact non-smokers or whether the absence of a return simply indicated their inability to purchase tobacco. Of Glasgow students living at home 62 per cent. are non-smokers, but of these 7 per cent. would smoke if they could afford to do so. The comparative figures away from home are 60 and 4 per cent.

The mode for students living at home is between 4s. and 6s. and away from home between 10s. and 12s. There are 3 Arts students and 2 Science students who spend over £1. Medical students who live away from home are by far the heaviest smokers, one spending 30s. per week, equivalent to a consumption of over 20 cigarettes a day. In Engineering the absence of heavy smokers (only in four cases does the maximum reach 14s.) accounts for a relatively low average. At both Universities the number of women smokers was small. In Birmingham there is a bigger percentage of non-smokers, 67 per cent. both for students living at home and away from home. Roughly the same percentage would smoke if they could afford to do so.

Drink. No returns were made for this item by 65 per cent. of Glasgow students living at home and 73 per cent. living away from home. In Birmingham the corresponding figures were 44 per cent. and 51 per cent. None of the women students showed any return for drink. All averages worked out were for those who actually spent money on drink and it was found that the mean was in all cases higher than the median, this being due to a few exceptionally high returns. In the Faculty of Arts the mean was 8s. 4d. and the median 2s. at Glasgow and 8s. 7d. and 6s. 6d. respectively at Birmingham.

A higher percentage of students who live at home than who live away made a return under this heading but they spent much less ; for the great majority of students living at home the weekly expenditure was about 2s. per week.

(6) *Board and Food*

For the student who lives away from home the heaviest item in his budget is board and lodgings. There is no faculty difference on expenditure on this item, and the returns for Glasgow and Birmingham are very similar. Since 1952 the charges for halls of residence have been raised by about £13 per session and it is expected for 1957-58 that there will be a further rise of £15. For students living at home expenditure for food in Birmingham was noticeably higher than in

Glasgow, this being due to the greater number of teas which are consumed in Birmingham.

(7) *Other Expenditure*

TABLE VII

AMOUNTS SPENT ON ITEMS UNDER 'OTHER EXPENDITURE'

	Glasgow home	Glasgow away	Birmingham home	Birmingham away
	£ s	£ s.	£ s.	£ s.
Societies (other than University) . . .	3 5	1 18	2 16	2 4
Books (other than text-books) . . .	4 19	3 8	3 12	3 1
Personal . . .	7 10	7 2	7 6	13 13
Sundry	6 11	5 12	7 —	10 —
Total	22 5	18 —	20 14	28 18

The item 'Societies (other than University)' includes home clubs which have no connection with the University but which the students may wish to join, say, golf or angling clubs. Personal expenditure covers such items as hair-cuts, soap, cosmetics, etc. Women in all faculties, as no doubt is to be expected, spend much more on these than men. Sundry expenditure covers postages, newspapers and similar items. At Glasgow those living at home spend more under this head than those living away from home but that is not so in Birmingham. A Glasgow man who lives at home reported sundry expenditure as £3 per week.

(8) *Vacation Living*

While the student spends 30 weeks at the University and on the average two weeks on holiday, he still has to exist for the remaining 20 weeks in the year. Students were not asked to give an estimated return for these 20 weeks but in order to give a complete picture of expenditure an estimate of £2 per week has been included in Table IV. This sum is lower than the £2 5s. awarded under the 1955 Regulations but it is thought better to underestimate than exaggerate an item which is not directly based on Survey returns.

(9) *Maintenance at Home*

The same problem arises in costing the amount spent by parents on a student who lives at home since parents or relatives have to provide board and food for the complete session. If we regard rent and rates as fixed overheads and ignore them, we are left with food

and some miscellaneous items such as bed linen. These have been estimated at a minimum of 30s. per week or less than 5s. per day.

Total expenditure in Glasgow and Birmingham (as shown in Table IV) is very similar. Such slight differences as there are do not arise from differences in cost; for example, prices for textbooks and University clothes are similar in the two cities and so are charges for halls of residence and meals. The main difference between the two Universities relates to the proportion of students who live at and away from home, but since both groups were analysed separately, this difference does not affect the comparisons made in Table IV.[5]

The Balance of Income and Expenditure

Comparison of the expenditure returns with those for income as given in Table III shows an excess of expenditure over student income. In Glasgow the excess is £134 11s. for students living at home and £142 8s. for students living away from home, and in Birmingham £124 1s. and £75 8s. Leaving out of account private means there is, in normal circumstances, only one source from which this balance can be met—assistance by parents or relatives. The Glasgow figures especially may seem rather high, and there is evidence from the Survey that many students are aware of the financial burden which their studies impose on their parents. Were it not for this consciousness of dependence more students might feel morally freer to participate more fully in student activities involving some financial outlay. Only 30 per cent. of the Glasgow students covered by the Survey stated that they considered their income from all sources to be sufficient to enable them ' to lead a full University life '.

Analysis showed that there was no apparent correlation between, on the one hand, size of grant and the level of expenditure; and, on the other, size of grant and incidence of or amount earned from vacational employment. For instance, £50 a year was spent on clothes by eight Glasgow women with no grant, and by women with grants of £21, £57, £78, £97, £136, £154, £196 and £210, while £10 a year was so spent by three Glasgow men with no grant and by five others with grants of £24, £81, £114, £180 and £230. If we take the eight Birmingham women who spent £30 on clothes, one had no grant, and the others had grants of £49, £154, £157, £162, £225, £231 and £232. Of 79 Glasgow men spending nothing on subscriptions to University societies (other than the Union), 35 had no grant at all, 43

[5] Thanks are due to Birmingham Guild of Undergraduates for their co-operation both in taking the sample for the Survey and in furnishing additional background information.

had grants fairly evenly spread over a range from £11 to £173, and one had a grant of £259. Again, it was found in Glasgow that a student with no grant at all earns £120 and that students with grants of £30, £57, £100, £130, £150, £210 and £300 earned the same amount. Similarly, there are students without grants and with grants up to £330 who earn nothing at all over the year. This suggests that the raising of grants will not necessarily lead to a diminution of vacation employment and that the problem is more complex than was perhaps formerly appreciated.

Since the Survey took place, new regulations governing the award of grants came into force in July 1957. These regulations provide for a rise in the maintenance allowance, 'other normal expenses' and vacation allowance. The rise of 5s. in the maintenance allowance is, however, more than balanced by the 10s. rise in University residence costs. The 'other normal expenses' concession may also be absorbed by the rise in the cost of clothing and personal expenditure. Finally, the rise in vacation allowance from a minimum of £9 to a minimum of £22 will affect only the lowest awards. Glasgow, for instance, under the old regulations gave £18, Clackmannan £25, Lanark £45 and Zetland £50. The rise in the minimum amount, therefore, may make no difference to the allowances under this head made by the more generous authorities. On the other hand, it may lead to a decrease in the optional amounts given by authorities that are awarding minimal grants. This danger is the more real in view of the proposals for block grants to local authorities.

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THE CONTRIBUTION OF LOCAL AUTHORITIES TO THE SCOTTISH NATIONAL INCOME 1931-1950[1]

'NATIONAL INCOME' estimates for the regions of the U.K., particularly regions like Scotland, Wales and Northern Ireland which have considerable political and social significance, is a development which has been pursued by a number of investigators.[2] Advantage is taken here of Professor A. D. Campbell's estimates of the Scottish national income to go a step further and ask how the contribution thereto of Scottish local authorities changed over the period 1931-1950. The incomes and expenditures of the local authorities on which the answer to this question is based are first presented in the kind of account which would, if a systematic set of accounts for the Scottish economy existed, almost certainly feature therein as it features in the Central Statistical Office's annual Blue Book.[3] The account conveniently portrays some developments in the local authorities' activities. The ensuing comparison with Prof. Campbell's estimates of the relevant heads of income and expenditure in the account indicates the extent of the well-known diminution during the period in the rôle, strictly the economic rôle, of local government.

An essential requirement for the exercise is information on the payments by Scottish local authorities to their employees and original estimates of these payments are presented. These estimates are of interest in themselves for two reasons. Firstly, they make possible rough comparisons, at the beginning and end of the period, of the share of Scottish local authorities in the Scottish labour bill with the proportion of the Scottish labour force employed by Scottish local

[1] We wish to thank Miss Phyllis Deane and Mr. J. E. G. Utting of the Department of Applied Economics, Cambridge, and Dr. P. G. Richards and Mr. C. J. Thomas of the University, Southampton, for their constructive comments on an earlier draft, and Mr. J. A. C. Brown of the Department at Cambridge for statistical advice.

[2] A. D. Campbell, 'Changes in Scottish Incomes, 1924-49', *Economic Journal*, 1955.

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C. F. Carter and Mary Robson, 'A Comparison of the National Incomes and Social Accounts of Northern Ireland, the Republic of Ireland and the U.K.', *Journal of the Statistical and Social Inquiry Society of Ireland*, 108th Session, 1954-55.

[3] e.g. *National Income and Expenditure* 1956, p. 38. See also Nevin, op. cit., p. 10.

authorities. Secondly, they help to fill a small statistical gap. Local authorities are sufficiently important employers to make it desirable to know their total payments for labour.[4] The form of British economic statistics is such that the most convenient general approach to estimating labour bills is an industry by industry approach on the basis of the Standard Industrial Classification. The local authority sector extends, however, over many industries (e.g. public administration, building and contracting, education, transport) and it is not easy in all cases to distinguish its contribution to the several labour bills. Since 1949/50 an official figure has been published of the wages and salaries paid by English and Welsh local authorities.[5] The desirability of similar estimates for Scotland has been noted.[6] The Scottish estimates given here are not however quite comparable to the official English and Welsh figures; they include, for example, superannuation payments.

I

Participation of Scottish Local Authorities in the Scottish Economy

Procedure and Definitions

The extent of the participation of Scottish local authorities in the Scottish economy has been assessed for four years only (the financial years[7] 1931/32, 1938/39, 1947/48, 1949/50). The trend of change is, it is presumed, adequately revealed. The heavy work entailed in estimating the labour bills in any case precluded a much fuller coverage. The four years were chosen partly because of the striking contrast in general economic conditions between the first and last years and partly for reasons more particular to local authorities. 1931/32 was the second year of operation of the Local Government (Scotland) Act, 1929, which radically transformed the structure of Scottish local govern-

[4] See, e.g., J. E. G. Utting, *Social Accounts of Local Authorities*, p. 57. (National Institute of Economic & Social Research, Occasional Paper XVI, C.U.P. 1953.)

[5] *Local Government Financial Statistics*, p. 12. (Ministry of Local Government and Planning, 1951.)

[6] *Report of the Inter-departmental Committee on Social and Economic Research*, p. 22. (Lord President's Office, 1956.)

[7] The financial year of Scottish local authorities ends in most cases on the 15th May, but for Edinburgh it is the 28th May, for Aberdeen and Glasgow the 31st May, and there are still other dates for miscellaneous authorities like Harbour Authorities and Fishery Boards. See *Report of the Interdepartmental Committee on Social and Economic Research*, p. 32. In compiling *Local Financial Returns* the Scottish Home Department combine the appropriate financial years of the various authorities without adjustment for the years' slight differences of commencement and termination.

ment existing in 1929[8]; 1938/39 was the last full financial year preceding the second World War. 1947/48 and 1949/50 preceded and succeeded the notable post-war changes[9] in the functions of local authorities.

Local authorities can be regarded from two relevant viewpoints, as employers of factors of production and as bodies providing the public by their expenditures with communal services including income redistribution and communal assets like houses and schools. Especially in the field of capital formation, however, what work is done by the labour employed directly by local authorities and what is done by labour employed by contractors is arbitrary in the sense that it varies from authority to authority and from time to time. It is for this reason that the participation of local authorities in the Scottish economy is assessed by the relative contribution to the Scottish national income of the resources they directly employ and also by the relation of their expenditure to the Scottish national income. Another possible assessment, also considered here, is the proportion of the working population they employ.[10]

The contribution of Scottish local authorities to the national income is composed here of the payments of the authorities for the labour they employ, the profits of their trading services and the rents which accrue to them (or can be imputed to them) from the ownership of buildings like houses, schools and town halls.[11]

[8] Sir W. E. Whyte, *Local Government in Scotland* (Wm. Hodge & Co. 1936.) Very broadly the central feature of the Act was to make the county the effective unit of local government.

[9] e.g. the nationalisation of municipal electricity undertakings (1st April 1948); of municipal gas undertakings (1st May 1949); the transference of local authority hospitals and mental institutions to Regional Hospital Boards and of local authority responsibiities for outdoor relief to the National Assistance Board (4th July 1948).

[10] A more detailed discussion of 'the measure of government' can be found in Chapter I of *The Growth of Public Employment in Great Britain*, M. Abramovitz and V. F. Eliasberg. (National Bureau of Economic Research, New York. Princetown University Press, 1957.)

[11] Following C.S.O. practice, interest is treated as a transfer payment. This conforms with the decision to equate a sector's contribution to the national income to the contribution of the factors of production directly employed in it. Interest payments on the capital employed by Scottish local authorities are thus ascribed to the local authority sector rather than the recipient sectors of the economy from which the capital was borrowed. Lack of information also makes this treatment convenient. The interest incomes of Scottish local authorities could only have been guessed for 1931/2, 1938/9, and 1947/8. There seems no doubt, however, that they were relatively small throughout the period.

TABLE I

SCOTTISH LOCAL AUTHORITIES: SOCIAL ACCOUNT 1931-32, 1938-39, 1947-48 AND 1949-50

REVENUE ACCOUNT

	1931-32		1938-39		1947-48		1949-50	
Income	£m.	%	£m.	%	£m.	%	£m.	%
1 Rates	16·94	36·7	21·21	40·3	31·06	39·3	29·55	38·5
2 Grants from central government	17·61	38·2	18·86	35·8	34·65	43·8	33·71	44·0
3 Gross trading profit	3·37	7·3	3·04	5·8	1·82	2·3	0·76[a]	1·0
4 Gross rental income	8·23	17·8	9·57	18·2	11·56	14·6	12·24	16·0
5 Interest	..	..	..	..	..	..	0·42	0·5
	46·15	100·0	52·68	100·0	79·09	100·0	76·68	100·0
Expenditure								
6 Current expenditure on goods and services	29·53	64·0	33·05	62·7	54·20	68·5	53·66	70·0
(Labour bill)[b]	(22·6)		(27·0)		(50·5)		(49·3)	
7 Housing subsidies	0·76	1·6	0·82	1·6	2·39	3·0	3·10	4·0
8 Interest	7·24	15·7	6·70	12·7	6·89	8·7	7·42	9·7
9 Grants to persons	4·70	10·2	5·78	11·0	8·72	11·0	5·13	6·7
10 Surplus	3·92	8·5	6·33	12·0	6·89	8·7	7·37	9·6
	46·15	100·0	52·68	100·0	79·09	100·0	76·68	100·0

CAPITAL ACCOUNT

Income								
10 Surplus	3·92	34·4	6·33	32·2	6·89	20·3	7·37	16·3
11 Capital grant	..	..	..	..	..	..	1·64	3·6
12 Net borrowing	7·48	65·6	13·32	67·8	27·08	79·8	36·27	80·3
	11·40	100·0	19·65	100·0	33·97	100·0	45·28	100·0
Expenditure								
13 Gross fixed capital formation								
(a) Trading service	2·33	20·3	3·51	17·8	3·95	11·6	5·98	13·2
(b) Rate Fund services	4·00	34·9	4·37	22·2	3·57	10·5	7·55	16·7
(c) Housing	5·13	44·8	11·79	59·9	26·42	77·8	31·73	70·1
	11·46	100·0	19·67	100·0	33·94	100·0	45·26	100·0

[a] The fall in trading profits in 1949-50 is partly due to the fact that it is not possible to distinguish all transfers to reserve funds and capital accounts from trading expenditure in the *Local Financial Returns* of that year. In previous returns the Scottish Home Department had itself excluded them.

[b] The labour bill is not directly comparable with current expenditure on goods and services since the latter is net of receipts from the public in fees, etc., while the former includes agency services for nationalised indusries. In England and Wales these agency services make up ½ - 1 per cent. of the total labour bill.

The expenditure of local authorities includes not only expenditure (current[12] and capital[13]) on goods and services, but also housing subsidies and transfer payments like grants to persons (e.g. scholarships) and interest.[14] Total expenditure so defined is simply the sum of the expenditure items in Table I.

The Social Account

The account in Table I, so far as can be judged from the Central Statistical Office's description of the compilation of their own local authority account,[15] and so far as is possible almost wholly on the basis of the Scottish Home Department's *Local Financial Returns*[16] is analogous to the account for U.K. local authorities in *National Income and Expenditure 1955*.[17] It enables the present estimates to be presented systematically and to reflect some of the developments of Scottish local government over the period 1931-1950.

The Scottish *Local Financial Returns* for the year 1949-50, unlike those for previous years, is in the same form as the English and Welsh *Local Government Financial Statistics,* and is more adequate for the compilation of an account on C.S.O. lines. The content of the accounts for the three earlier years differs, therefore, from the accounts for 1949-50. For example, government grants to local authorities on capital account cannot, except in 1949-50, be distinguished from grants for revenue purposes and, because of insufficient information, even the hazardous estimate of the interest income of Scottish local authorities attempted for 1949-50 is impossible for 1931-32, 1938-39 and 1947-48.

The most striking feature revealed by Table I is the increasingly important share of capital investment in the expenditure of Scottish local authorities ; it has nearly doubled over the period from about

[12] Current expenditure on goods and services is net of receipts from the public in fees, etc. Inclusive of these receipts the expenditure of the two pre-war years would be a little less than, and of the two post-war years, a little more than, 10 per cent. greater.

[13] The published figures of capital expenditure by local authorities have limitations for present purposes. For example, some of the larger local authorities may charge certain renewals to revenue and some may include the whole cost of equipping new buildings even though part of the equipment may consist of small items, like crockery, not normally regarded as part of capital formation. See *National Income, Sources and Methods,* p. 293 (Central Statistical Office, 1956) (henceforth referred to as *Sources and Methods*).

[14] Some might prefer local authority expenditure to include only *net* transfer payments, in particular interest payments net of interest receipts, or alternatively, if emphasis is placed on the resources directly absorbed by local authority expenditure, to exclude transfer payments altogether.

[15] *Sources and Methods,* p. 231.

[16] Not now published, but duplicated for limited circulation.

[17] pp. 38-39. This account has undergone minor revisions in the 1956 Blue Book.

20 per cent. to about 40 per cent. The economy campaign made 1931-32 an unpropitious time for capital expenditure. In 1949-50, on the other hand, local authorities, though restrained by 'capital cuts', were pursuing their very large post-war housing programmes.[18]

On capital account, the decline between 1947-48 and 1949-50 in the importance of trading services to Scottish local authorities, following the nationalisation of their electricity and gas undertakings, is not apparent. On revenue account, in contrast, the decline comes out strongly. The share contributed by gross trading profits to revenue account was roughly halved (2·3 per cent. to 1 per cent.).[19] The contrast between the pre-war and post-war years in the percentage contribution to revenue account of trading services is even more outstanding: the percentage contribution before the war was 5 per cent. to 7 per cent.

The greater dependence after the war of Scottish local authorities on grants from the central government is also clear, although its extent is somewhat depreciated in the account by the compounding in the years before 1949-50 of capital and revenue grants and by the exclusion from 'grants from the central government' of central government housing subsidies. These central government subsidies are in effect taken into account in gross rental income as a consequence of treating the authorities' rental income from their houses, not as the rents actually received from tenants but as what the rents would need to be to cover all the current expenditure of the housing revenue account, i.e. as, in a sense, 'economic rents'. A further consequence of this treatment is the appearance on the expenditure side of the account of a local authority housing subsidy equal to the actual deficit on the housing revenue account. 'Gross rental income' also includes an imputation in respect of rents for non-trading premises like schools equal to the annual loan charges on the capital raised to build the premises.[20]

It is the relation to loan charges of the imputations in respect of schools, houses, etc. (in 1949-50 loan charges accounted for nearly two-thirds of the expenditure on housing revenue account), which must partly explain why the gross rental income of Scottish local authorities is only half as much again in 1949-50 as in 1931-32 even

[18] Capital expenditure by Scottish local authorities is set in a wider perspective by Robert Baird in Chapter 13 of *The Scottish Economy*, pp. 188-190.

[19] The decline is slightly exaggerated by the impossibility of distinguishing in the 1949-50 *Local Financial Returns* certain transfers to other accounts from total trading service expenditure. Such transfers should be reckoned in profits.

[20] An imputation in respect of rents of the premises used by trading services is included in gross trading profits.

though their stock of houses had increased about threefold.[21] Loan charges depend on original costs and so in inflationary post-war conditions rental incomes based implicitly on loan charges 'measure' economic rents at something less than current prices.[22] This imperfection is pertinent to the subsequent estimates of the contribution of Scottish local authorities to the Scottish national income.

Comparison with the Scottish National Income

Professor Campbell's annual estimates of Scottish national income for appropriate years were converted to a financial year basis by adding half the income of one calendar year to half the income of the succeeding year. In producing an estimate of the Scottish national income for the financial year 1949-50 Professor Campbell's estimates for 1949 had, in addition, to be extrapolated to cover 1950 on the assumption that each of the categories of income distinguished by him changed between 1949 and 1950 proportionately to the same categories for the U.K.[23]

Adjustments to two items in the social account were necessary because the definitions adopted by Professor Campbell were those used by the C.S.O. in an earlier National Income Blue Book.[24] Local authorities' trading profits and rental incomes, in common with all profits and rents, were there defined net of depreciation whereas they are now defined, as in the social account in Table I, gross of depreciation. There are obviously two ways of dealing with these differences of definition: to raise Professor Campbell's estimates to a gross, or to reduce the trading profits and rental incomes of Table I to a net basis.

Estimates of the Scottish gross national income for 1947-48 and 1949-50 can be made by allocating to Scotland a share of the depreciation for the appropriate years according to the proportions which the relevant categories of Scottish income (trading profits, etc.) constitute of the U.K. total incomes.[25] The second alternative is, however, feasible for all four years. The profits and rents of Table I can be reduced—albeit very shakily—to a net basis by equating—as the C.S.O. formerly did—depreciation to the amortisation charges on the debt of the appropriate services.

[21] An observation based on information supplied by the Scottish Home Department. The loss of hospitals is a comparatively minor off-setting consideration.

[22] *Sources and Methods*, p. 236.

[23] As given in Table 14 of the 1956 National Income Blue Book.

[24] *National Income and Expenditure 1946-51* (Central Statistical Office, August 1952).

[25] Ibid., p. 15.
The estimates of depreciation were avowedly unsatisfactory (ibid., p. 5).

Table II presents both gross and net estimates for the two years for which they are possible. Their relation is commented on later.

TABLE II

SCOTTISH LOCAL AUTHORITIES' CONTRIBUTIONS TO NATIONAL INCOME AGGREGATES 1931-32, 1938-39, 1947-48 AND 1949-50 (£m.)

	1931-32	1938-39	1947-48	1949-50
Labour bill	22·6	27·0	50·5	49·3
Net trading profits	1·3	0·9	0·2	−0·4[a]
Net rental income	5·5	5·4	5·8	7·0
Total contribution to National Income	29·4	33·3	Net 56·5 Gross 63·9	55·9 62·3
Scottish National Income (£m.)	345·0	475·0	Net 928·0 G.N.P. 989·0	1040·0 1121·0
Local Authority contribution (%)	*8·5*	*7·0*	Net *6·1* Gross *6·5*	*5·4* *5·6*
Local Authority expenditure (£m.)	53·7	66·0	106·1	114·6
Percentage of Scottish National Income (%)	*15·6*	*13·9*	*11·4*	*11·0*
Scottish Labour Bill (£m).	204·0	279·0	550·0	639·0
Local Authority Labour Bill (%)	*11·0*	*9·7*	*9·2*	*7·7*

[a] See Note a, Table I.

The Decline in the Rôle of Scottish Local Authorities in the Scottish Economy

Whether assessed according to their contribution to the Scottish national income or the relation of their expenditure to national income, Scottish local authorities played a markedly smaller rôle in the Scottish economy in 1949-50 than in 1931-32. They contributed 8 - 9 per cent. of the Scottish national income in 1931-32 but only 5 - 6 per cent. in 1949-50. In 1931-32 their expenditure was 15 - 16 per cent. of the national income; in 1949-50 about 11 per cent. The slightly smaller relative decline in the relation of their expenditure to the national income reflects in part the greater dependence of their income on taxation (their own or through government grants) but it chiefly reflects the greater part played in their total expenditure by capital investment. In capital expenditure, local authorities mainly buy the services of factors of production employed by other sectors of the economy (e.g. the building industry) and to that extent do not increase their own contribution to the national income.

The results for the two intermediate years bring the direct comparison between 1931-32 and 1949-50 into better perspective. The relative decline of local authorities during the period is persistent. The loss to local authorities of their trading services, hospitals and responsibility for outdoor relief between 1947-48 and 1949-50 accounted for only part of the decline. A comparison of 1931-32 with 1938-39 suggests that a considerable part of the decline can be simply explained by the emergence of the rest of the Scottish economy from the depths of depression and its more rapid subsequent growth. A comparison of 1938-39 with 1947-48 suggests a further contributory factor. Local authorities are not a part of the economy which rides buoyantly on the advance of inflation. The wages and salaries of their employees and certainly their rental incomes (the latter, as already stated, partly for definitional reasons) are ' sticky '.[26]

Comparisons—Gross and Net

The estimate for 1949-50 of the relative contribution of the income of Scottish local authorities' gross of depreciation to the Scottish gross national product (at 5·6 per cent.) is the same as the relative contribution of all local authorities to the U.K.'s gross national product (Table III).[27] Net of depreciation their contribution is somewhat less ; local authorities contribute relatively more to total depreciation than to the national income. This is entirely plausible since local authorities as providers of basic services like water, transport, housing and education control large accumulations of capital.[28]

The difference between these relative contributions (gross and net of depreciation) is probably somewhat greater than indicated in Table II since the estimates there—on the basis of amortisation charges—of

[26] Full documentation for the whole period for the relative ' stickiness ' of the earnings of local authorities' employees seems to be lacking. Common opinion and the difficulties experienced since the war by local authorities in recruiting staff are general evidence. See for supporting statistical evidence A. Chapman and R. Knight, *Wages and Salaries in the U.K., 1920-38* (C.U.P. 1953), Table 10, p. 28 ; *Studies in the National Income 1924-38,* edited by A. L. Bowley (C.U.P. 1942), p. 93 ; A. L. Bowley, ' Wages, Earnings and Hours of Work 1914-47 ', *London & Cambridge Economic Service Special Memo. 50,* May 1947; F. Conway, 'An Index of Teachers' Salaries ', *Oxford Institute Bulletin of Statistics,* 1953, p. 243 ; S. E. Finer, ' The Squeeze on Salaries,' *Public Service,* Dec. 1953, p. 751.

[27] Mr. T. M. Ridley, basing himself on the National Income White Paper (Cmd. 7933), has produced a comparable estimate for the U.K. for 1948 of 5·5 per cent. (T. M. Ridley, ' Note on the Extent of the Public Sector in the Economy in Recent Years ', *J.R.S.S. Series A (General),* 1951, p. 212. The estimate of 5·6 per cent. in the text is based on the 1956 National Income Blue Book and thus incorporates revisions of estimates and definition. The relative contribution of local authorities to the G.N.P. is not highly sensitive to statistical revisions.

[28] See, e.g., Philip Redfern, ' Net Investment in Fixed Assets in the U.K., 1938-53 ', *J.R.S.S., Series A (General)* 1955, p. 164.

the depreciation of Scottish local authorities are probably particularly flagrant underestimates. This at least is suggested in bringing the C.S.O.'s new estimates of depreciation for the U.K.[29] into the picture in Table III. The 'first estimate' in this table, whilst (like the 'second estimate') incorporating the labour bills of the local authorities of England and Wales, Scotland and N. Ireland, is otherwise based on

TABLE III

ESTIMATES OF THE CONTRIBUTION OF U.K. LOCAL AUTHORITIES TO THE GROSS NATIONAL PRODUCT, 1949-50
(£m.)

	First estimate	Second estimate[g]
English-Welsh Local Authorities' Wages and Salaries . . 404[a]		
Superannuation, etc. . . 40[b]	444	
Scottish Local Authorities' Labour Bill	49[c]	
Northern Ireland Local Authorities' Labour Bill	7[d]	
	500	500
Gross trading income . . .	23[e]	44
Gross rental income:		
Houses	62[e]	126
Other land and buildings .	34[e]	
	619	670
U.K. Gross national product . .	11,205[f]	11,256
Local Authorities' contribution as percentage of U.K. gross national product (%)	*5·6*	*6·0*

a *Local Government Financial Statistics, England and Wales, 1949/50.*
b Estimate based on data in J. E. G. Utting, *Social Accounts of Local Authorities*, Table 18, p. 55.
c Present estimate.
d Guess: with reference to the Northern Ireland *Local Taxation Returns* and *Ulster Year Book*.
e *National Income Blue Book 1956*, p. 40, Table 38.
f Ibid., p. 1, Table I.
g Explained in text.

the gross trading and rental income of U.K. local authorities and the U.K. gross national product as given in the 1956 Blue Book. The 'second estimate' of the gross trading profits and rents of U.K. local authorities and the consequent revision of the U.K. gross national product are produced after making adjustments, the necessity for which the C.S.O. explain but do not make, presumably in order to preserve continuity in their main tables. It is produced, that is, by subtracting from the trading and rental incomes of the 'first estimate'

[29] *National Income and Expenditure 1956*, Table 55, p. 58.

the amortisation charges on the authorities' debt and adding the C.S.O.'s new estimates of depreciation. The relative contribution of local authorities to the G.N.P. is increased by ½ per cent. as a result of these revisions.[30] If similar revisions were feasible for Scotland the increase would undoubtedly be of the same order.

II

Scottish Local Authority Labour Bills

The Scottish local authorities' labour bill is the main component in their contribution to the Scottish national income; in 1931-32 it accounted for 75 per cent. of their contribution, in 1949-50, 90 per cent. Its coverage and estimation must be explained.

The labour bills are composed of the authorities' expenditures on wages, salaries, national insurance contributions (national health and unemployment insurance before July 1948), unfunded pensions. contributions to superannuation funds (both 'equivalent contributions' and 'equal annual charges') with the addition of expenditures on police uniforms, police 'rent allowances' and 'uniform allowances' and food for nurses, these last four items being regarded here as income to their recipients. This definition is not the only possible one.[31] For example, whether police uniforms should be treated as part of a policeman's income cannot be unequivocally resolved. The definition was adopted as reasonably sensible and because the primary data suggested its feasibility.

The primary data are the authorities' expenditures recorded in their published *Abstracts of Accounts*. The abstracts are at present the only possible published source of information for making direct estimates of the labour bills of Scottish local authorities, although, as will be seen, additional information from the Scottish Home Department is indispensible.

Only a carefully selected sample of abstracts was worked through. Scottish local authorities were grouped into their four classes, counties, counties of cities, large burghs, small burghs, and a proportion of the authorities was selected at random from each class. The proportions were varied with the importance of each class: all four counties of

[30] Ibid., p. 57. Similar adjustments noted by the C.S.O., e.g. in respect of the Post Office, have not been attempted. If they were, the consequent increase in the G.N.P. would mean that the increase in the relative contribution of local authorities to the G.N.P. would be slightly smaller.

[31] For a short discussion of the problems in this type of enquiry in deciding what to include in payments to labour, see Mr. J. E. G. Utting's 'Current Expenditure on Wages and Salaries by Local Authorities in England and Wales', *Local Government Finance*, Jan. 1948. The disputable items in the above definition cover a comparatively small part of the total labour bill.

cities (Aberdeen, Dundee, Edinburgh, Glasgow) were taken; 1 in 2 of the counties and large burghs; 15 in 100 of the small burghs.

A word on the way the present work developed is now necessary. The labour bill for 1947-48 was estimated first and independently of the others for a separate enquiry. The authorities in the stratified random sample were circulated and asked for their abstracts. The response was good. All the counties of cities sent their abstracts, 13 of the 15 counties, 9 of the 10 large burghs and 14 of 26 small burghs. An estimate for 1947-48 was based on the abstracts of the responding authorities. Abstracts on loan from the Scottish Home Department were obtained later when estimates of the labour bills for other years were contemplated. Partial checks on the accuracy of the 1947-48 estimate and on the representativeness of the responding authorities were reassuring. The 1947-48 estimate was, therefore, not revised or the basis for further estimates widened to include the non-responding authorities.

In any case, sampling errors are almost certainly unimportant[32] compared with errors arising from deficiencies in the abstracts as a source of information on labour costs, and from the errors in examining the information and noting the recorded expenditures on wages, salaries, etc. Obviously, no general criticisms of abstracts are implied in remarking upon particular deficiences in them for this enquiry. Comparatively brief published accounts cannot meet all needs. Nor should the deficiencies be exaggerated: for the larger authorities and for nearly all important services like police, education and public transport, wages, salaries and related payments are recorded in detail.

There are two main deficiencies. 'Housing Repairs' and 'Capital' accounts rarely give labour costs. One well-known reason in the case of capital accounts is the constant change in the nature of constructional work. An analysis giving the cost of each particular project is, therefore, more logical, even where direct labour is employed, than an analysis of total capital expenditure into labour costs, material costs, etc. Fortunately, neither the 'Housing Repairs' nor the 'Capital' accounts are important purchasers (directly) of labour services.[33]

The second deficiency, which is found particularly in the abstracts of the smaller authorities, is that labour costs (mostly for the less

[32] The standard error of the estimate of the 1947-48 labour bill was 1¼ per cent. of the bill. See F. Yates, *Sampling Methods for Censuses and Surveys* (Griffin, 1953), p. 254.

[33] Mr. Utting has shown (*Social Accounts of Local Authorities*, p. 40) that, for English and Welsh local authorities, the labour bill on 'Housing Repairs' account is about 1 per cent. of their total labour bill, and the labour bills on 'Rate Fund and Trading Service' capital accounts, 3-4 per cent. Comparable figures for Scotland cannot be greatly different.

important services) are often included under general headings like 'maintenance' or 'upkeep' and cannot be distinguished.

These deficiencies presumably preclude official use of the abstracts for estimating the labour bill of Scottish local authorities. Recently the Scottish Home Department have started to collect certain details of expenditure on wages and salaries directly from a sample of local authorities.[34] Fortunately, reassurances were available in pursuing the present estimates. Firstly, no City Chamberlain whose opinion was sought considered the project preposterous and most were encouraging. Secondly, complete reliance on the abstracts could be dispensed with in the case of Glasgow, whose labour bill is about a third of the total. The Corporation of Glasgow has made a practice of publishing its labour bills annually in its *Facts and Figures for Members of the Council*. These official figures exclude national insurance and superannuation contributions and some estimation—partly on the basis of the abstracts—was necessary to cover these omissions. They do, however, include labour payments on capital account and so go a considerable way to remedy the general lack in the abstracts of information on labour payments on this account. Glasgow's labour bill not only forms about a third of the total for all Scottish local authorities, but almost certainly forms a much greater proportion of the total labour bill on capital account alone.

Glasgow's abstracts were, nevertheless, searched for labour payments to compare with the Corporation's official figures and so provide a partial check on the accuracy of the extractions for other authorities. The comparison showed the extraction work to be substantially accurate for rate fund services, but awry for trading services. Ambiguous general headings like repairs, cleaning, maintenance, were too common in the trading accounts.

The same conclusion emerged from a comparison of the labour payments extracted from Edinburgh's abstracts with figures provided privately by the Edinburgh Corporation. In the case of Edinburgh, as in the further cases of Dumbarton Burgh and Lanark County Council, where the comparisons showed satisfactory agreement, the extracted figures were used.

These comparisons of extracted and actual figures, along with additional information from Fife County Council, partially confirm the general impression that estimates of the labour bills of Scottish local

[34] The Department has made the details for 1955-56 available. Work on them is reassuring of the accuracy of the 1949-50 estimate. For example, the percentage sub-division by type of authority of an estimate of the 1955-56 labour bill, which comes out rather more than half as much again as the 1949-50 bill, is very similar to the ratio of 37:60:3 (counties, large burghs, small burghs respectively) obtained in producing the estimate for 1949-50.

authorities on the basis of the abstracts must be biased downwards to the extent of 5 per cent. or so. What is less certain, though equally plausible in the light of a general judgment on the abstracts of the different years, is that the downward bias is greater for pre-war than post-war years. Such a difference in bias would, if it existed, offset to some extent the opposite bias in the case of rental incomes.

The extracted labour bills for the sample of Scottish authorities were raised to give an estimate for all Scottish local authorities by multiplying them by the ratio borne by the total revenue expenditure of all Scottish local authorities to the revenue expenditures of the sample authorities,[35] keeping separate the different classes of authority (counties of cities—excluding Glasgow—large burghs, small burghs) and also rate-fund and trading services.

The Scottish Home Department was able to supply the sample authorities' revenue expenditures for 1947-48 and 1949-50 only. Total labour bills for 1931-32 and 1938-39 were estimated by assuming them to have moved proportionately to the sample authorities' extracted labour bills for those years.

Miscellaneous authorities, except for Harbour Boards, have been ignored as relatively negligible in estimating the labour bills. About 10 per cent. of the wages and salaries of harbour undertakings is accounted for by the harbour undertakings of counties and burghs, and is, therefore, in principle already taken into account. Five autonomous harbour undertakings[36] account for the remaining 90 per cent. It was possible, with an insignificant amount of estimation, to produce their labour bills from information supplied by them.

Labour Bills and Numbers Employed

The trend in the contribution of the Scottish local authorities' labour bill to the Scottish labour bill[37] (shown in Table II) is one of decline, though of less marked decline than in the authorities' analogous contributions to the Scottish national income.

How does this compare with the trend in the proportion of the Scottish employed population employed by Scottish local authorities? The data brought together in Table IV indicate how this proportion

[35] Kindly supplied privately by the Scottish Home Department.

[36] Clyde Navigation Trust; Leith Dock Commission; Aberdeen Harbour Commission; Dundee Harbour Trust; Greenock Harbour Trust.

[37] Derivable, after estimation of the agricultural labour bill, from Prof. Campbell's work. His estimates, however, exclude superannuation contributions and allowances.

stood at the beginning and end (strictly, two years after the end)[38] of the period. Scottish local authorities were employing about the same proportion of Scottish employees in 1952 as in 1931, though this is a broad observation which must be interpreted in the light of the kind of qualifications to which 'percentage employed' is subject as an indicator of the importance of a sector of the economy.

The sex composition of the labour force of Scottish local authorities changed between 1931 and 1952. In 1931 there were on the average, in every 100 employees, 32 women ; in 1952 the number had risen to 41, while for Scotland as a whole the proportion was much the same.

Nothing has been ascertained on the age and skill composition of the Scottish local authority labour forces, though as is partly true of sex composition also, they must have been affected by the intervening changes, like the loss of gas and electricity undertakings, in local authority activities.

About 11 per cent. of Scottish local authorities' employees in 1952 were part-time workers ; how this compares with 1931 is not known. There can be no doubt, however, that 1931 and 1950 are in marked contrast in respect to the quite distinct question of short-time and overtime, short-time being widespread in 1931 and overtime in 1950. There is equally no doubt that in 1931 short-time was much less common amongst local authority employees than amongst the employees of other industries,[39] and it seems likely for general reasons (on this there is less tangible evidence[40]) that in 1950, in contrast, overtime was commoner in other industries than in the local authority sector.

Table IV is on the basis of those in work only. This is the most appropriate procedure for direct comparisons of changes in relative proportions of employees with changes in relative contributions to the Scottish labour bill. Since in depressed conditions there is a tendency

[38] All the relevant data for 1949 and 1950 do not exist ; mid-1952 was the first date in respect of which the Ministry of Labour collected the total number employed by local authorities. There is, however, no doubt that Scottish local authorities employed about the same proportion of the Scottish labour force in 1949 and 1950 as in 1952. In those years, Scotland's employed population changed little, as did the number employed by the large sample of Scottish local authorities (accounting for about 90 per cent. of local authority employment) from which the Scottish branch of the Institute of Municipal Treasurers and Accountants collects information. See the Institute's *Rating Review*, 1949, 1950 and 1952.

[39] As would be expected. See Ministry of Labour's Enquiry, Oct. 1931 (*Ministry of Labour Gazette*, March 1933, p. 83). These data are not comprehensive in respect of local authorities.

[40] 'Average hours worked' are a slight indication given that they are consistent with general expectations. (*Ministry of Labour Gazette*, Sept. 1950, p. 300.)

for workers to obtain employment (mostly temporary) in public authority work, it might, for some purposes, be necessary to consider the effect of the high level of unemployment in 1931 on the Census figure of employment by Scottish local authorities. It does not seem necessary here.

TABLE IV

EMPLOYMENT BY SCOTTISH LOCAL AUTHORITIES IN 1931 AND 1952 (000's)

		Male	Female	All workers
1931[a]	Local Authorities .	86·1 (8·0%)	41·0 (7·5%)	127·1 (7·8%)
	Scotland . . .	1077·4	549·0	1626·4
1952	Local Authorities[b] .	89·0 (6·6%)	62·3 (8·9%)	151·3 (7·5%)
	Scotland[c] . . .	1346·0	697·4	2043·4

[a] *Census of Population, Scotland, 1931*, Vol. III. Table 15. Operative employees only. Comparable figures were not produced from 1951 Census.
[b] Numbers employed by Local Authorities, June 1952, as given in *Ministry of Labour Gazette*, Dec. 1952.
[c] Estimated number of insured employees excluding wholly unemployed, June 1952, as given in *Digest of Scottish Statistics*, No. 2, Oct. 1953, p. 4 and p. 10.

Finally, employment figures for single dates in a year may not be representative of employment during the whole year.

Whatever reasonable weight is attached to these qualifications and to the slight differences in the coverage of the employment data for the two dates, it is certain that there is a marked contrast between the early 1930's and early 1950's in the comparative stability in the proportion of Scottish employees working for local authorities and the decline in the relative contribution of the authorities to the Scottish labour bill (11 per cent. to just under 8 per cent.). It is a contrast which demands some explanation, or at least comment; at this level of analysis, with aggregative concepts, a complete explanation is out of the question.

Changes in the relative sex composition of the Scottish local authorities' labour forces and the disappearance of the much heavier unemployment and short-time which existed in other sectors of the economy in 1931 are partial explanations of the contrast. Taken alone, they would account for about a third of the fall in the relative contribution of Scottish local authorities to the labour bill for Scotland.

Even if it is presumed (and the presumption would be made here without evidence) that the influence of changes in the relative age

and skill composition of the local authorities' labour forces acted in the same direction, its importance can hardly have been so great as the influence of changes in the relative sex composition and incidence of unemployment.

An explanation in terms of different rates of change in the productivity of labour in the local authority sector and other sectors of the economy suggests itself, since the services provided by local authorities are, it is perhaps fair to say, less susceptible to advances in productivity than those provided by most other sectors of the economy. If at the end of the period advances in productivity were running more rapidly ahead of advances in productivity in the local authority sector than at the beginning of the period, the usual obstacles to labour mobility would ensure that the earnings of local authority employees would be lower relatively to the earnings of employees in other sectors. Nevertheless it is not merely 'real' changes in productivity such as changes due to technical progress of one kind or another which are relevant. Productivity means productivity in terms of value measured in money and thus almost all economic considerations are relevant. An obvious one, which must be of considerable importance, is the 'stickiness' of the earnings of the employees of local authorities in the contrasting economic conditions of 1931 and 1950. In the depressed conditions of 1931 these earnings were relatively high: in the inflationary conditions of 1949, relatively low.[41]

According to Chapman and Knight,[42] average earnings in local government service in 1931 were 30 per cent. above the national average. This figure is for the U.K., and for local government service more narrowly defined than here. According to the present estimates (local government employees constituting 8 per cent. of the Scottish labour force and contributing 11 per cent. of the labour bill), the average earnings of all local government employees in Scotland in 1931-32 was nearly 40 per cent. above the Scottish average. In 1949-50, for the kinds of reasons noted above, this differential had nearly, if not quite, disappeared. In this also, Scottish experience broadly reflects that of the U.K. A rough calculation for 1949-50 for the U.K.—using Chapman and Knight's narrower definitions—discloses the same feature.

The 'measures' presented here should, in conclusion, be seen in a slightly wider perspective. They can throw little light on many aspects of local government in Scotland: they are logically distinct, for example, from the changes in the extent and vitality of the discretion

[41] See n 26.
[42] Op. cit., p. 28.

vested in local councils. Local discretion could conceivably rise or decline in autonomy and efficiency whatever was happening, within quite wide limits, to the contribution of local authorities to the national income. Nevertheless the ' measures ' are helpful historical summaries of some of the economic and legislative influences on the rôle of local government in Scotland.

The presentation in a single account of the component elements of the ' measures ' brings out clearly such trends during the peace-time years of the 'thirties and 'forties as the increasing importance of capital investment in the expenditure of Scottish local authorities and the persistent decline in the contribution of trading profits to their income. Turning to one of the measures themselves, we can see that the contribution of Scottish local authorities to the national income has probably been affected more by the change in the economic climate from chronic depression to chronic inflation than by the legislation of the first post-war Labour government. A comparison of the measures also offers a useful assessment of certain features of local government. For example, a comparison of the proportion which local authority employees formed of the Scottish labour force in the early 'thirties and early 'fifties with the relative contribution of those employees to the Scottish labour bill broadly reflects the changes in the composition of the authorities' staff and in their relative position in the scale of average earnings.

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RETAIL DISTRIBUTION: SOME REGIONAL COMPARISONS

In his article on *The Retail Distributive Trades in Scotland,* published in the *Journal* for February 1956, Mr. W. R. Matheson brings out the interesting fact that, on the average for the two countries, shops in Scotland are fewer and larger than in England and Wales. Although Scotland is not perhaps strictly speaking a 'region', yet it is true that the population of Scotland is very largely concentrated into a single industrial area, whereas that of England and Wales is dispersed over a number of areas of different characterstics and roughly comparable size. To get a clearer picture, therefore, it is worth while to go a stage further and compare Scotland with the various standard regions south of the Border. In the tables below, the Census of Distribution data are compared with regional populations as given in the 1951 census.

TABLE I

REGIONS IN ORDER OF NUMBER OF ESTABLISHMENTS IN RELATION TO POPULATION, 1951

Region	Establishments per 10,000 population
1. North-western	168·8
2. East and West Ridings	158·3
3. North Midland	155·7
4. Midland	142·6
5. South-eastern[a]	142·3
6. Wales and Monmouth	141·5
7. South-western	131·5
8. Eastern	130·9
9. Greater London	127·6
10. Southern	127·2
11. Northern	125·0
12. Scotland	123·0

a The London and South-eastern standard Region excluding Greater London.

Scotland certainly has the smallest number of establishments in relation to population of any region, though the North runs her pretty close, and the South and Greater London are not very much higher. The real contrast which emerges is that between the industrial areas of Lancashire, Yorkshire, the Midlands and Wales, and the rest, for it is these areas (together with the South-east), which have the pattern of a large number of shops. Northumberland and Durham, in this

respect as in others, seem to be more like Scotland, and so indeed do London and the more rural regions of the East, South and South-west.

A more detailed examination of the figures for different groups of trades bears this out. The three groups of Grocery, Other Food and Clothing account between them for about half the total number of establishments. The North-western, East and West Riding, Midland, and North Midland regions show figures ranging from about 30 to 35 per 10,000 for both the Grocery and the Other Food groups, and from 19½ to 23½ per 10,000 for the Clothing group, whereas the other regions have a range of 20 to 27 or so for the two food groups, and 16 to 18 for the Clothing group. Scotland, on the other hand, has the biggest relative number in any region of shops in the Confectionery, Newsagents and Tobacconists group. As against this, she has an unduly low number of service establishments in relation to population. If shops alone are taken, and service establishments omitted, Scotland comes up to eighth place, above the North, East, South and Greater London.

TABLE II

REGIONS IN ORDER OF SALES PER HEAD OF POPULATION, 1951

Region	Average sales per head
	£
1. Greater London	148·0
2. South-eastern	124·0
3. Southern	120·3
4. Scotland	117·5
5. North-western	114·8
6. East and West Ridings	114·5
7. North Midland	113·3
8. Midland	113·0
9. Eastern	112·2
10. South-western	111·3
11. Northern	106·7
12. Wales and Monmouth	94·9

When we turn to expenditure per head we find, not unexpectedly, that the figure for Greater London is far in excess of that for any other region. This is probably a reflection both of higher income levels and of shopping in London by people whose homes are in other parts of the country. The excess is particularly marked in the Confectionery, Newsagent and Tobacco, Furniture, Jewellery and Leather, and Department and Variety Store groups, as well as in Catering and the Motor trades.

After London come the two largely 'residential' regions of South-east and South, but Scotland follows them and is above any of the

main English industrial regions, as well as the more rural East and South-west. Thus the higher average of sales per head for England and Wales, at £120·8 as against £117·5 for Scotland, is largely the result of very high figures for London offsetting lower figures for the industrial areas. Since Scotland as a unit is both more self-contained and more balanced than any of the English regions, it is natural that her figure is nearer the average. On the other hand Wales (including Monmouthshire), has a much lower expenditure per head than any other region. To some extent this may be due to a tendency to shop outside, e.g. in Liverpool or Bristol, but it must also reflect either lower average incomes or more frugal spending habits.

TABLE III

REGIONS IN ORDER OF SIZE OF ESTABLISHMENT, 1951

Region	Average sales per establishment
	£
1. Greater London	11,600
2. Scotland	9,600
3. Southern	9,500
4. South-eastern	8,700
5. Eastern	8,600
6. Northern	8,500
7. South-western	8,500
8. Midland	7,900
9. North Midland	7,300
10. East and West Ridings	7,200
11. North-western	6,800
12. Wales and Monmouth	6,600

Turning now to size of establishment, Table III shows, as might be expected, that London has the largest shops on the average. Scotland, as Mr. Matheson, suggests, has however a larger average size of shop than any area of England and Wales outside London. The industrial areas of Lancashire, Yorkshire and the Midlands, which have the largest numbers of shops in relation to population, tend also to have the smallest average size of shop of any region apart from Wales.

On the basis of these three tables, it is possible to attempt a rough classification of the regions. First we have Greater London, with about the average number of shops in relation to population, but with a tendency for establishments to be large and sales per head high. The neighbouring South-east region, which also has sales per head above the average, has a relatively high number of shops and they are relatively large. Scotland, the Northern, Southern, Eastern and South-

western regions can be grouped together as having fewer, but larger, shops than the average, with sales per head around or slightly below the average (though rather further below in the case of the Northern region). On the other hand, the East and West Riding, North Midland, Midland and North-western regions have the opposite pattern of large numbers of relatively small shops, with sales per head again around the average. Finally, we have Wales with its pattern of a fairly large number of relatively small shops and low sales per head.

Perhaps the most interesting feature of this comparison is the contrast between Scotland and the main industrial areas of England, other than the North-east Coast. The contrast is more marked if we consider the chief industrial areas of Scotland separately from the rest of the country, as is done in Table IV, which is based on Mr. Matheson's figures as given in Table II of his article (page 70).

TABLE IV

COMPARISON OF INDUSTRIAL AND RURAL REGIONS IN ENGLAND AND SCOTLAND

	Main industrial regions			Largely rural regions	
	Establishments per 10,000 population	Sales per estab. £		Establishments per 10,000 population	Sales per estab. £
England					
Northern	125·0	8,500	Eastern	130·9	8,600
North-western	168·8	6,800	Southern	127·2	9,500
E. & W. Ridings	158·3	7,200	South-western	131·5	8,500
Midland	142·6	7,900			
North Midland	155·7	7,300			
Scotland					
Central East	126.8	9,900	North-eastern	136·9	9,100
Central West	114·8	9,900	South-western	131.5	8,500
			Border	149·7	7,900
			Highland	128·5	8,200

The largely rural and small-town regions in both countries have a fairly similar pattern of numbers and size of shops, though it is perhaps significant that the Borders, dominated by small textile-industry towns, should have something more like the large-number-of-small-shop pattern of Lancashire and the West Riding. The two main industrial areas of Scotland, however, are unlike any English industrial region except the Northern. In Scotland, unlike England, the prevalence of a comparatively small number of relatively large shops is found to be characteristic of the industrial areas rather than

of the rural areas, and in particular of the Central West region, which accounts for half the Scottish population.

The most striking differences in the structure of retail trade thus seems to be, not so much those between Scotland and England, as those between say Lanarkshire and Lancashire, or Renfrewshire and Staffordshire. This is surely a sociological fact of some importance.

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RECENT ECONOMIC TRENDS

Incomes in the U.K. and Scotland in 1949-50 and 1954-55: Change and Contrast

Five years ago the Commissioners of Inland Revenue produced, in the form of an Income Census for the tax year 1949-50, much more adequate information than had previously been available on the pattern of incomes passing through (and sometimes sticking to!) their hands. This Census has now been repeated for 1954-55, and the first results are available in the most recent (99th) Report of the Commissioners.

Wage and salary payments had the best of the income changes in these five years. Net income in total increased by 39 per cent. during the five-year period, but investment income from property, interest and dividends grew only by 21 per cent., while earned income from all sources grew by 41 per cent. In the latter type of income, wages and salaries (including pensions and other Schedule E incomes), increased in total by 46 per cent.; but professional incomes (from fees rather than salaries) and trading profits only grew by 18 per cent. Wage, salary and pension payments to males, averaged over all male incomes of this type assessed, increased by 38 per cent. from £374 in 1949-50 to £518 in 1954-55. Married men gained more than single men (including widowers), since their average wage and salary income increased by 40 per cent. while that of single men increased by 31 per cent. Average wages and salaries of single women (including widows) rose by 30 per cent. In the cases of single men and women, however, the smaller increases may well be due to the larger proportion of pensioners, as well as juveniles, in the totals. Reliance on investment income differed widely. For example, only 6·2 per cent. of the total net income of married couples came from investments in 1954-55, compared with 24·2 per cent. for single women and widows.

By 1954-55 many fewer assessed incomes were recorded in the groups below £300 and more were recorded above £1,000. Over half of the total number of incomes assessed were between £400 and £1,000 as against about a quarter in 1949-50. In 1949-50 the median income of the distribution was £308. In 1954-55 this had risen by 47 per cent. to £452, while the lower quartile had increased by 38 per cent., and the upper by 45 per cent. People in the middle ranges seem to have done substantially better than those at the lower end (a group which doubtless includes many pensioners) and slightly better than those at the top end.

The typical family group of British social belief is that of married couples with two children who are not contributing significantly to the family exchequer. While these families are not as typical as we sometimes pretend (if more evidence is needed on this point, the Census provides it, since it shows that only 9·6 per cent. of incomes in the U.K. go to such families), it is worth looking at their incomes.

TABLE I
NUMBER OF NET INCOMES IN EACH INCOME GROUP AS PERCENTAGE OF TOTAL NUMBER OF INCOMES U.K.—1949-50 AND 1954-55

Range of net incomes	Percentage of Incomes by number	
	1949-50	1954-55
£135 (or £155)[a] — £199	18·3	7·5
£200 — £299	29·7	15·8
£300 — £399	23·4	17·4
£400 — £499	13·0	17·8
£500 — £599	6·3	14·1
£600 — £799	4·6	16·0
£800 — £999	1·5	5·6
£1,000 — £1,499	1·4	3·2
£1,500 — £1,999	0·6	1·0
£2,000 and over . . .	1·2	1·6
All ranges	100·0	100·0

[a] The lower limit for assessment was increased between the two years.

In 1954-55 their median income was £584. This was an increase of 49 per cent. from £392 in 1949-50. This still left 13·1 per cent. of the families in this group with under £400 at their disposal in 1954-55 and only 9·0 per cent. with over £1,000. Over half (57·7 per cent.) had between £500 and £1,000 to spend (37·2 per cent. had between £500 and £700).

Comparative figures for Scotland can also be gathered from the Census. Net income in total increased by 37 per cent. in the five years compared with a 39 per cent. increase for the United Kingdom as a whole. In 1954-55 Scottish incomes still lagged behind the average for the United Kingdom: average net income per person assessed was 95·5 per cent. of the U.K. average in 1949-50 and 94·5 per cent. in 1954-55. Broadly similar remarks may be made about wage and salary increases. For example, the average of wage, salary and pension payments made to males in Scotland increased by 37 per cent. as against 38 per cent. for the U.K. and the Scottish average was 93·5 per cent. of the U.K.

In surprising contrast to wage and salary payments, Scottish professional and trading profits compare very favourably with those for the U.K. Both in 1949-50 and in 1954-55 professional earnings and trading profits formed a higher proportion of total net income for Scotland than this type of income did for the U.K. as a whole; and income from this source grew by the same amount, 18 per cent., in both areas over the five years. As a proportion of total numbers of incomes assessed, a slightly higher number of professional and trading profit incomes were being drawn on in Scotland at both dates. This does not mean that the excess proportion of Scottish income from this source was simply being distributed between more people: the average income from professional and trading profits in Scotland was larger than that for the U.K. in both years and the gap had not narrowed. Indeed, as a result of some increase in the numbers and proportions of incomes derived from this source in the U.K. as a whole, the gap between average incomes from this source in the U.K. and Scotland in 1954-55 had widened in favour of Scotland. It seems to be an inescapable conclusion that Scotland supports a higher proportion of professional and trading profit incomes at a higher average level than does the U.K. as a whole.

Total Scottish income from investments grew by 29 per cent. in the five year period, while U.K. investment income only grew by 21 per cent. Investment income was a slightly more important factor in total net income in Scotland than in the U.K. as a whole in 1954-55 (8·8 per cent. against 8·6 per cent.). For both areas the proportionate importance of investment income had declined since 1949-50, because of the more rapid growth of other types of income, but the decline was greater for the U.K. as a whole (from 10 per cent.) than for Scotland (from 9·3 per cent.), with the result that Scotland moved from placing less emphasis on investment income to giving such income relatively slightly more emphasis. These figures suggest either that Scottish investments were relatively more fruitful in the five year period, or that Scotland was saving a relatively higher proportion of income and so producing increased investment income. The first point of view gains credence from a somewhat different distribution of the sources of this type of income in the two areas. The U.K. as a whole derived 19·8 per cent. of its investment income from property (Schedules A and B) in 1954-55, whereas Scotland only had 9·4 per cent. of its investment income from this source. Property income increased much less than income from dividends and interest, indeed Scottish income from property hardly increased at all. The more rapid increase in investment income in Scotland was partly due, therefore, to more fortunate

holdings of types of investment. But, Scottish income purely from interest and dividends increased at a more rapid rate than for the U.K. Either Scotsmen were especially capable of getting high interest or dividends for their money or they were increasing their holdings and their savings at a faster rate. It is hard to believe that Scottish holdings of interest and dividend yielding assets were so much more fruitful than those elsewhere in the U.K., and it seems therefore necessary to conclude that Scotland was adding to its savings relatively more rapidly than the U.K. over these five years.

Both in 1949-50 and in 1954-55 net investment income, per head of those assessed for this type of income, was larger than the corresponding figure for the U.K. This result is solely due to those deriving income from this source in Scotland being a relatively smaller proportion of total income receivers. During the five year period the proportion of income receivers in receipt of investment income grew more rapidly in Scotland and came nearer to the U.K. proportion. Thus the suggested more rapid growth in savings in Scotland was probably in part due to a widening circle of savers. As in the U.K. generally, so in Scotland, the share of investment income in total net income varied very much for different types of family circumstances: married couples and single males benefited much less on average than single females.

TABLE II

NUMBER OF NET INCOMES IN EACH INCOME GROUP AS PERCENTAGE OF TOTAL NUMBER OF INCOMES SCOTLAND—1949-50 AND 1954-55

Range of net incomes	Percentage of Incomes by number	
	1949-50	1954-55
£135 (or £155) — £199	19·0	7·8
£200 — £299	32·6	18·5
£300 — £399	23·9	20·0
£400 — £499	11·7	18·7
£500 — £599	5·0	13·2
£600 — £799	3·4	12·8
£800 — £999	1·2	3·9
£1,000 — £1,499	1·3	2·5
£1,500 — £1,999	0·6	1·0
£2,000 and over . . .	1·2	1·6
All ranges	100·0	100·0

The rather lower wage and salary averages for Scotland and the rather higher investment and professional averages to an extent offset each other in the Scottish distribution of income, which nevertheless

has an unfavourable appearance against that for the U.K. as a whole. There had been a marked improvement in the levels of incomes shown by the Scottish distribution in 1954-55 as compared with 1949-50, but, looking at Tables 1 and 2 together, the concentration of Scottish incomes at a lower level than those for the U.K. is evident. There is a higher proportion of Scottish incomes at each level up to £500 and a lower proportion at each level thereafter (except in the £1,500 and over groups). The median of Scottish net incomes in 1954-55 was £419—92·5 per cent. of the U.K. figure of £452; but the upper quartile at £539 was only 88·0 per cent. of the U.K. figure of £612.

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CURRENT TOPICS

As reported in the June issue, an Extraordinary General Meeting of the Scottish Economic Society was held in the College Rooms, University of Glasgow, on 30th May 1957. Unanimous approval was given to the Council's proposal to increase the annual subscription to twenty-five shillings, with effect from 1st January 1958.

The seventh annual conference of the Scottish University economists met at 'The Burn', Edzell, from Monday, 16th September to Wednesday, 18th September. Papers were read by Professor Alan T. Peacock (Edinburgh) on the theory of public expenditure, Mr. C. I. Savage (St. Andrews) on the economics of transport, and Dr. S. C. Orr (Glasgow) on Keynesian concepts in post-war Britain. Mr. D. L. Munby (Aberdeen) opened a discussion on the current economic situation.

The following note concludes the series published on research in progress in economics and economic history in the Scottish universities. It relates to the University of St. Andrews; anyone who wants more detailed information on any of the topics mentioned should write to Mr. A. V. Cole, Department of Political Economy, St. Salvator's College, St. Andrews.

At Queen's College, Dundee, the Department of Economics has four projects in progress. A study of the application of geometrical methods in economics has recently been completed and will shortly be published. Work is proceeding on a reconsideration of the theory of interest and profit. Material on certain aspects of the growth of the Scottish Iron and Steel Industry in the 19th century is being prepared for publication. Research is in progress on the recent history and future prospects of the Jute Industry. The Department of Modern Social and Economic History has the following studies in hand: the Scottish Economy from 1550-1625 (nearly completed); the development of British Trade Unions since 1870; the Factory Reform movement 1830-1853; and the relation of party voting to economic and social development in large cities 1885-1914.

At St. Salvator's College, St. Andrews, following on recent publications by members of the staff, further work is being done on the economic history and economics of transport, and on the theory of the multiplier, while an investigation of the economics of Thomas Chalmers has been begun.

At the time of going to press, the following programme of meetings of local branches for the coming winter had been arranged:—

EDINBURGH

(*Secretary:* Dr. M. T. Rankin, 51 George Square, Edinburgh)

16th October 1957 'The New Proposals for Pensions'—Professor Alan T. Peacock, University of Edinburgh.

13th November, 1957 'The Electronic Computer in Research and Industry'—James Kyles, Esq., M.A., Lecturer in Natural Philosophy, University of Edinburgh.

11th December 1957 'Hire Purchase'—Professor A. D. Campbell, Queen's College, Dundee, University of St. Andrews.

28th January 1958 Joint meeting with the Edinburgh Branch of the Institute of Bankers. Speaker—Lord Polwarth, Chairman, Scottish Council (Development and Industry).

19th February 1958 'Economists and Investors'—G. I. Stewart, Esq., C.A.

12th March 1958 Joint meeting with the Edinburgh Branch of the Royal Statistical Society (Industrial Section).

All meetings except that on 28th January 1958 will be in the Institute of Chartered Accountants, 27 Queen Street, Edinburgh, on Tuesdays at 7.45 p.m. The Meeting on 28th January will be at 7 p.m. in the Merchants Hall, Hanover Street.

GLASGOW

(*Secretary:* M. Gaskin, Esq., D.F.C., Department of Political Economy, The University, Glasgow, W.2.)

10th October 1957 'The European Free Trade Area'—Professor A. K. Cairncross, C.M.G., University of Glasgow.

30th October 1957 'Fuel and Power in Scotland—Coal'—Robert A. Moore, Esq., O.B.E., B.Sc., J.P., Production Director (Operations), National Coal Board, Scottish Division.

15th November 1957 'Regional Planning in the Clyde Valley'—Robert Grieve, Deputy Planning Officer for Scotland.

9th January 1958 'Competition in Shipbuilding'—J. R. Parkinson, B.Com., University of Glasgow.

26th February 1958 'Fuel and Power in Scotland—Electricity'—J. S. Pickles, Esq., B.Sc., M.I.E.E., Chairman, South of Scotland Electricity Board.

13th March 1958 'The Financial Structure of the Corporate Sector of the British Economy'—Professor Brian Tew, University of Nottingham.

The first five of these meetings will be joint meetings with other Societies: the first with the Glasgow Branch of the Institute of Bankers in Scotland, the second and fifth with the Royal Scottish Geographical and the Royal Philosophical Society of Glasgow, the third and fourth with the Royal Scottish Geographical Society.

DUNDEE

(*Secretary:* Dr. I. F. Gibson, Queen's College, Dundee, University of St. Andrews)

24th October 1957 'Selling Public Transport under Competitive Conditions'—S. E. Raymond, Esq., Chief Commercial Manager, British Railways (Scottish Region).

14th November 1957 'Economic Initiative in the Nineteenth Century'—Professor S. G. Checkland, University of Glasgow. (Joint meeting with the Abertay Historical Society.)

23rd January 1958 Speaker—David Alexander, Esq., General Manager, The National Bank of Scotland Limited. (Joint meeting with the Dundee Branch of the Institute of Bankers in Scotland, at 27 Crighton Street, Dundee.)

7th February 1958 'The Future of the Highlands'—Jo. Grimond, M.P.

13th March 1958 'Scottish Industry and the Free Trade Area'—W. S. Robertson, Chief Executive Officer, The Scottish Council (Development and Industry). (A joint meeting with the Dundee Branch of the Institute of Industrial Administration. Final arrangements for this meeting will be announced later.)

April 1958 Discussion meeting on 'The Budget'.

ABERDEEN

(*Secretary:* D. L. Munby, 51 Whitehall Road, Aberdeen)

22nd October 1957 'The New Railway Charges Scheme'—S. E. Raymond, Esq., Chief Commercial Manager, British Railways (Scottish Region).

18th November 1957 'The European Coal and Steel Community'—Roy Pryce, European Coal and Steel Community Delegation in U.K.

Date to be arranged. 'Trade Unionism in Scotland Today'—George Middleton, Esq., General Secretary, Scottish T.U.C.

Date to be arranged. 'Shipbuilding Today'—J. R. Parkinson, Esq., University of Glasgow.

ST. ANDREWS

Meetings will be arranged in conjunction with the Political Economy Club of the University; details from Professor J. W. Nisbet, Department of Political Economy, St. Salvator's College, University of St. Andrews.

THE SPAN OF CONTROL

Col. Urwick's article in the June issue deals with an interesting problem which has long been a matter of controversy. In a large organisation such as a railway undertaking, the construction of a pyramid within which not more than five report to a superior may lead to worse evils than are avoided. This applies even if the limitations to the principle stated in the article are observed.

The difficulties arise because the fewer in any one layer, the more the layers, *i.e.* the longer the chain of command. It would appear from remarks on page 109 that a long chain of command is favoured, but it can be most extravagant both in time and staff. A calls in B and tells him what is to be done, B explains it to C, who passes it on to D and so on—in fact there may be two B's, four C's, etc. Each individual spends double time on the one instruction—listening and retailing. The alternative is correspondence which wastes still more time since in addition to those mentioned there are secretaries, typists, filing clerks, despatch boys.

It is inferred in the article that people want to shorten the chain of command to have more subordinates and be nearer the top. On the other hand, a sharp pyramid is favoured because if A has ten under him at £500 per annum each, he may get £750 but if he has two assistants, each with five under his control, each assistant may get £750 and the chief £1,000. The more the steps, the higher the top salary is likely to be.

People do not want chairs in front of their colleagues so much for prestige as for higher salaries. No one can be expected to supervise another unless he gets more money. Suppose there are ten tiers organised in groups of tens. If the pyramid is re-shaped on the principle of five to a group the increase in the total salary bill will be substantial.

Owing to its multifarious activities, a railway undertaking has numerous pyramids ; each of the many departments has one in each area. In most cases it is possible to settle interdepartmental issues with one's opposite number but there are inevitably occasions when the matter is referred to the top of one pyramid, across to the top of another one, down to the corresponding level from which it originated and then all the way back again—possibly more than once. The more layers in each pyramid, the longer the time till the matter is settled and the more costly the procedure in money and man-power. The smaller the units in each pyramid, the more there are of them and the greater the time spent in inter-unit correspondence and visiting, telephoning and conferences.

The article appears to emphasise unduly one side of the case. Would it not be more advantageous to tackle the very thorny problem of how to retain the advantages of large scale operation without dissipating the economies in providing too complex an organisation to administer the undertaking? The advantages of not more than five men under one are obvious, but how is one to prevent the undue multiplication of such units in an undertaking with hundreds of thousands of employees and how is one to reconcile delegation of authority with the maintenance of a uniform policy in a national concern?

ROBERT R. TAKAHIRA.

Glasgow

Mr. Takahira states clearly some of the difficulties in applying the Span of Control in a large-scale organisation. These difficulties are well-known to all students of the subject, which is why some of us feel that a clearer understanding and application of the general principles of organisation is essential if the complexities of our civilisation are not to overwhelm our capacity to direct them. The Span of Control is less than 'one side of the case'. It is only one of some ten or more such general principles of organisation. The problem in each instance is to work out a structure which works with reasonable speed and simplicity *without infringing any of the general principles.*

L. URWICK.

London

BOOKS RECEIVED

An Economic Survey of Northern Ireland, by K. S. Isles and Norman Cuthbert. (H.M.S.O. Belfast, 1957. 35s.)

Coal and Steel in Western Europe, by Norman J. G. Pounds and William N. Parker. (Faber & Faber Ltd., 1957. 45s.)

Domestic Food Consumption and Expenditure: 1955. Annual Report of the National Food Survey Committee. (H.M.S.O., 1957. 6s. 6d.)

Capital, Vol. 2, by Karl Marx. (Lawrence & Wishart, 1957. 7s. 6d.)

Political Economy, A Soviet Textbook. (Lawrence & Wishart, 1957. 21s.)

Economic Issues, A Financial and Economic Debate in the Critical Years, 1954-57. Edited by Stephen Frowen and H. C. Hillmann. (Waterlow & Sons Limited, 1957. 21s. 6d.)

The Right to Buy—and its Denial to Small Business, by Dr. Vernon A. Mund. (United States Government Printing Office, 1957. Senate Document 32.)